S. HRG. 101-1093, PT. 1

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1991

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

H.R. 5114

AN ACT MAKING APPROPRIATIONS FOR FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1991, AND FOR OTHER PURPOSES

Part 1 (Pages 1-1075)

Agency for International Development
Department of Defense
Department of State
Department of the Treasury
Departmental Witnesses

Printed for the use of the Committee on Appropriations

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FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

THURSDAY, FEBRUARY 8, 1990

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:12 a.m. in room SD–138, Dirksen Senate Office Building, Hon. Patrick Leahy (chairman) presiding.

Present: Senators Leahy, DeConcini, Harkin, Kasten, and D'Amato.

DEPARTMENT OF STATE

BUREAU FOR INTER-AMERICAN AFFAIRS

STATEMENT OF BERNARD W. ARONSON, ASSISTANT SECRETARY OF STATE, BUREAU OF INTER-AMERICAN AFFAIRS

OPENING REMARKS OF SENATOR PATRICK J. LEAHY

Senator LEAHY. Good morning Mr. Secretary, welcome. I want to note that Senator Kasten is at another hearing and asked that we just go ahead and start. He obviously has an interest in this and will be here later.

Senator Mikulski, who also has a great interest in this area is chairing a hearing in the HUD Subcommittee and is not here. So, what they have done is left Senator D'Amato and I on our own, a frightening thought for the country, but probably excellent for you, Mr. Secretary.

I want to welcome you to what is the first hearing of the Subcommittee on Foreign Operations for the 1991 fiscal year.

It is interesting because at this time 1 year ago when we held hearings in this subcommittee, nobody could have imagined the dramatic changes that have taken place in Eastern Europe and around the world.

So, I think this year the thrust of our hearings will be somewhat different. Last year we could assume that certain events, whether in Eastern Europe or anywhere else, would go along at a measured and predictable pace and foreign aid could also be considered at a measured and predictable pace.

I think both of those ideas are fallacious. Both have been proven wrong by events, and it is time for us to take a hard look at how

our foreign aid programs are keeping pace with today's realities, if indeed they are, and to what extent they should be changed.

That is why I am so disappointed by the President's fiscal year 1991 foreign aid budget request. With the exception of additional support for Eastern Europe, there is no sign that the administration is prepared to exercise the leadership and seize the opportunity before us. Much of it simply proposes more of the same as though no great and enormous—and in some instances irreversible—changes have taken place in the past year.

I will have a lot more to say about this, of course, when Secretary of State Baker testifies before the subcommittee. Today I want to focus on Central America, where it would be difficult to find a more glaring example of more of the same old thinking.

Our witness today is Assistant Secretary of State Bernard Aronson. Mr. Secretary, it is a delight for all of us to have you here. I hope you enjoy it as much as we do.

As you know, I just returned from a trip to Panama and El Salvador over the weekend. In Panama City I met with President Endara. I was able to see firsthand the urgent needs of the people there.

In El Salvador I had meetings on the human rights situation including the case of the six Jesuits. Just before leaving for Central America I met for over an hour, a one-on-one meeting with President Cristiani here in Washington.

Many have stated that continuing aid to El Salvador should be automatic because President Cristiani is trying to solve the case of the murder of the Jesuits. Well, I do not need a whole lot of statements, speeches, or anything else to convince me that President Cristiani wants to solve those cases. He does. Others do also.

I am not convinced that there would be any effort to find a solution without the pressure they have received from Congress. I do believe that what President Cristiani is doing is courageous, and I have told him so. I believe that his efforts have put him in some personal danger.

I do not need to be reminded of the atrocities of the FMLN. I have spoken out against their offensive last October. I have condemned in the strongest terms their attacks against civilians. No person with any commitment to human rights could possibly accept those kinds of attacks against civilians, and the death squad activity, whether it is on the right or on the left should be equally and strongly condemned.

But I would point out that we have sent over $1 million a day for 9 years to that country and during that time, by every objective analysis, the military and the death squads have killed tens of thousands of people, 20,000, 30,000, 60,000. Nobody even knows the exact number. But nobody questions the fact that those death squads, death squads acting with the support of American aid—I am not suggesting American direction—but certainly with the support of American aid, have killed tens of thousands of people.

We have to ask what we have to show for it. Well, we finally have something. It has been touted as though it is some kind of a great triumph after tens of thousands of people have been killed, after billions of dollars of American aid have gone down to those

who have been involved in the killing. We now have a colonel and three lieutenants arrested for one crime, albeit a heinous crime.

Frankly, I am not impressed. If that is all the change and direction and democracy that $4 billion of the American taxpayers' money to a country that is smaller geographically than the State of Vermont, if that is all we have accomplished, I am certainly not impressed.

Now, I want to strengthen President Cristiani's hand with the military. I want them to know we are serious. I believe, Mr. Secretary, you want them to know we are serious.

I do not think the military down there really thinks that we are all that serious, but I would like to find a way to let them know that we are because I think the majority of Congress, I think you, sir, and I think the Secretary of State wants them to know we are serious.

Senator D'Amato, did you have anything you wanted to say?

OPENING STATEMENT OF SENATOR ALPHONSE M. D'AMATO

Senator D'AMATO. Yes; I am delighted to welcome Mr. Aronson, and I would like to have him focus in on the extent of the commitment of the Cristiani government to solve the murder of the six Jesuits, what likelihood of success do you believe Cristiani will have, and how strong do you believe his commitment is to restoring rule that recognizes human rights.

I have always and fully supported aid to El Salvador, but I found myself, even if symbolically, joining with a number of my colleagues in voting for a suspension of that aid unless and until the Government took the kind of action that would bring to justice those responsible for the murder of the six Jesuits and that it made an honest and diligent effort to do so.

That is the first time in all of the years that I have been in the Senate that I have voted in that manner. I must say I am heartened by what I see, and I would like you to respond or at least make known to this committee the depth of the commitment that you feel Mr. Cristiani has, and what we can do, as Senator Leahy has indicated, to strengthen his hand.

Second, Panama. I certainly do not think I have to take a back seat to many people as it relates to vigorously pursuing or urging a course that would bring about the ouster of Noriega, the disassembling of his criminal cartel, and ending his use of the PDF to enhance his criminal enterprise and to keep his people under his thumb.

As some Panamanians said to me when I visited in January, we were prisoners or exiles in our own country. I hope that the opportunity for democracy is one which they will build on.

But let me say this to you: Even in my meetings with the commercial community, the banking community, the chamber of commerce, I did not get the feeling that they were committed to or understood the importance, the absolute necessity, of entering into agreements with this country concerning bank secrecy laws that will put an end to money laundering for the drug cartel, and the Colombians in particular.

I think some Panamanians still have an attitude, I must confess to you, that this will be business as usual. We are going to get a jump start from the Americans, and we have got this tough law, and indeed, the law that is on the books is probably one of the toughest worldwide, but it was used by Noriega simply as a way to cooperate where he wanted to and to avoid cooperation where he did not want to.

That is not going to suffice. I would like to get your attitude regarding this because in our legislative approval of the emergency aid package to Panama there is specifically contained a provision that the President will report to both Houses on the implementation of legislation that will give us the ability to detect money laundering.

I feel so strongly on this point that I would support placing limitations on the billion dollars in aid that the Panamanians are looking for if they are not forthcoming. I would sponsor restrictions unless and until I know that they are serious about curtailing and seeing to it that there is enacted a bilateral agreement with the United States dealing with money laundering and provisions that are strong and well rooted in law that will not return Panama to the money laundering capital that it once was. I would hope you might address these points.

Thank you, Mr. Chairman.

Senator LEAHY. Thank you, Senator D'Amato.

Senator DeConcini.

OPENING STATEMENT OF SENATOR DENNIS DECONCINI

Senator DECONCINI. Thank you. I appreciate the opportunity to examine with the rest of the subcommittee members here our proposed aid program for Panama and El Salvador. Both of these programs are clearly very important, although I suspect that one program may be more controversial than the other.

These hearings are timely, in part, because I had the opportunity to visit El Salvador and Panama in December. I am looking forward to the testimony of Assistant Secretary Aronson today to add to the impression that I received while I was there.

When I was there with Senator Graham of Florida, the world was still reeling from the shock of the murder of the six Jesuit priests, the housekeeper, and her daughter. At the time I emphasized to President Cristiani that this Senator placed the utmost priority on the apprehension and bringing to justice of those responsible for these crimes.

It is significant that for the first time, members of the military, as I understand, have actually been arrested for crimes such as this. Clearly, the commitment that the civilian government of El Salvador demonstrated in its handling of these murders will be a determining factor on what Congress does as it relates to the United States aid program.

In Panama, I am pleased that civilian government has been restored and that a democratically elected government, expressing the will of the Panamanian people is in charge. We must be certain that a strongman such as Noriega never is allowed to take control of the government in the future.

We must also ensure that Panama is never again to be a safe haven for drug runners—as the Senator from New York has pointed out so well, because he has been one of the leaders to curtail those activities and bring this to the Nation's attention—Panama must never again be the transit point for drugs.

I look forward to working with the administration and my colleagues on this committee. And I thank the chairman for his leadership and expression of concern, but also his expression of support for Mr. Cristiani.

Thank you, Mr. Chairman.

Senator LEAHY. Thank you very much, Senator DeConcini.

Senator Harkin.

Senator HARKIN. I apologize for being late, Mr. Chairman. I do not have an opening statement.

Senator LEAHY. Secretary Aronson, could I ask you to give us a summary of your statement. The full statement will be in the record, but we have an enormous number of questions, as you can imagine. And I suspect you probably have an enormous number of answers. If we could get started on that. Thank you.

SUMMARY STATEMENT OF HON. BERNARD W. ARONSON

Mr. ARONSON. We will find out.

Thank you, Mr. Chairman. I appreciate the opportunity to appear here. And I will try to respond to the thoughtful questions that the subcommittee members raised in their opening statements.

Senator LEAHY. Even respond to the nonthoughtful ones, please, because you may get more of those than the thoughtful ones.

Mr. ARONSON. We will be here a long time.

Mr. Chairman, you asked me to talk about administration policy toward both Panama and El Salvador, and I would like to do that briefly, and then take your questions. I will try to get through the statement relatively quickly. But I would like a chance to give the administration's views on, first, Panama, and then El Salvador.

Panama has an opportunity today which few nations or individuals ever enjoy, the chance to start anew.

The Panamanian people, through their own long struggle and sacrifice, and through the inspiring Operation Just Cause, have now been freed of the brutal, corrupt, oppressive military dictatorship under which they have lived for the past two decades.

Panama is now led by the three brave and decent leaders whom the Panamanian people themselves elected to office last May 7. This new government has three principal goals, all of which the United States supports, and all of which are vital to sustain and institutionalize the new democracy which has been born in Panama.

First, the Endara government is committed to restructure and reform their military into a new smaller civilian-led police force, so that never again will the people of Panama live under the boot of military dictatorship.

And as I have noted, they have already begun to clean out most of the officers who served Noriega. They are also breaking the force up into many smaller units. They are doing away with their

control of various economic institutions, which were a source of graft and corruption.

Second, the Endara government is committed to root out the corruption, drug trafficking, and money laundering that robbed the Panamanian people of their resources and their national dignity.

And I would note here that when the new government reopened the banks right after Operation Just Cause, they first came to our Government and asked us to give them information about pending drug cases so that people with assets that might be subject to investigation and seizure would not be able to take the assets and flee.

We gave them that information and they have frozen 300 separate bank accounts. And I think that is a good first expression of their commitment to cooperate with us, as Senator D'Amato and Senator DeConcini talked about.

And I would also note that on January 10, Assistant Secretary Mel Levitsky and Vice Minister of Government and Justice Ramon Lima signed a mutual cooperation agreement between the United States and Panama, pledging cooperation on combating drug trafficking, including money laundering.

And we intend to press hard on these issues, particularly money laundering, in the weeks and months to come.

Mr. Chairman, if I could, I would like to put a text of that agreement into the record for the committee's information.

Senator LEAHY. Without objection.

[The information follows:]

Mutual Cooperation Agreement
Between the Governments of the United States of America
and
the Republic of Panama
for Reducing Demand, Preventing Illicit Use
and
Combatting Illicit Production and Traffic of Drugs.

The Government of the United States of America and the Government of the Republic of Panama

Convinced that the illicit use and traffic of drugs constitute a problem which affects the communities of both countries;

Sharing a deep concern over the production, processing and trafficking of illicit drugs;

Reaffirming their joint determination to combat the drug menace;

Recognizing that the combat of the drug abuse problem should be carried out by means of concerted and harmonious activities in the prevention of illicit use, in the repression of illegal drug traffic and in the rehabilitation of chronic drug users;

Observing the obligations both countries undertook as parties to the Single Convention on Narcotics, dated July 31, 1961, amended by the Protocol of 1972, and the Convention on Psychotropic Substances, of February 21, 1971;

Noting that the Department of State of the United States of America bears responsibility for making reports as may be necessary and required to demonstrate conformity of the agreement with section 481 of the Foreign Assistance Act of 1961, as amended;

Taking into due consideration their constitutional, legal and administrative systems, and with respect for the national sovereignty of their respective states;

Article I

The contracting parties commit themselves to continue undertaking joint efforts and executing specific programs for combatting illicit production and traffic, reducing demand, preventing illicit use of drugs, and cooperating in attacking the profits from illicit drugs. This cooperation, which will be carried out according to this agreement, may comprise the furnishing by both signatory governments of any or all of the following: (I) equipment and human and financial resources to be employed in specific assistance programs in the aforementioned areas; (II) mutual technical scientific assistance; or (III) exchange of information.

Paragraph I: The contracting parties will also cooperate by means of exchange of information, which includes the exchange of experts, although not limited to this, with the objective of training enforcement organizations, reducing demand, and improving treatment and rehabilitation of drug addicts.

Paragraph II: The material, financial and human resources necessary for the execution of specific programs will be, in each case, defined by the parties through a Memorandum of Understanding (MOU).

Article II

The contracting parties agree to use their best efforts, consistent with their internal laws and narcotics control situations, to take appropriate measures, where applicable, to cooperate in programs to:

A) Conduct enforcement and interdiction activities against drug trafficking, including the development of mechanisms to effectively carry out the interdiction and seizure of narcotics trafficking vessels and any other forms of transportation;

B) Eradicate illicit drug crops (and, where applicable, find viable replacement crops);

C) Identify and destroy illegal drug processing sites and laboratories;

D) Regulate the production, importation, exportation, storage, distribution and sale of precursors, chemical products and solvents that may be used illicitly in the fabrication of drugs;

E) Effectively investigate and prosecute money laundering connected with, arising from, related to, or resulting from illicit narcotics trafficking;

F) To the extent the contracting parties may deem it advisable, develop new or utilize existing legal instruments, such as extradition treaties and mutual legal assistance treaties, in order to eliminate illicit narcotics trafficking and money laundering connected with, arising from, relating to, or resulting from illicit narcotics trafficking; and

G) Reduce demand through prevention, treatment and public awareness activities.

Article III

This agreement will be implemented by Memoranda of Understanding (MOU).

Paragraph I: Each MOU will cover a period of one year and will indicate the agencies responsible for carrying it out, and will contain a declaration of the goals that the project is to attain, as well as its specific measurable objectives. The contributions of each participant will be described in terms of goods and services as well as the estimates (in local currency and American dollars) of the value of each contribution. The MOU will also contain a timetable for the execution of the project.

Paragraph II: Importation fees or custom duties to which the material and equipment furnished according to the MOU and as a result of the execution of this agreement may be subject will be the sole responsibility of the recipient government, which will take the appropriate measures regarding their clearance.

Article IV

The Government of the United States of America designates as coordinator of the participation of the Government of the United States in the execution of this agreement the Bureau of International Narcotics Matters (INM) of the Department of State, and the Government of Panama designates as the provisional coordinator the Office of the Attorney General.

Article V

In order to facilitate execution of this agreement the contracting parties may designate an official to serve as permanent liaison between the respective government agencies specialized in drug matters.

Article VI

In order to attain the objectives contained in this agreement, the contracting parties, through representatives of the two governments, will meet at least once a year, to:

A) Evaluate the effectiveness of such programs of action;

B) Recommend to the respective governments annual programs with specific objectives, to be developed within the framework of this agreement and to be implemented through bilateral cooperation;

C) Examine any questions regarding the execution of this agreement;

D) Present to their respective governments the recommendations considered pertinent to the better execution of this agreement.

Article VII

All the activities resulting from this agreement will be developed in conformity with the laws and regulations in effect in the United States of America and in Panama.

Article VIII

For the purpose of this agreement drugs are understood to be the substances that are enumerated and described in the Single Convention on Narcotics of 1961, amended by the Protocol of 1972, and in the Convention on Psychotropic Substances of 1972.

Article IX

This agreement will enter into force upon signature and will remain in force until one of the parties gives at least three months' notice of termination through diplomatic channels. The termination of this agreement will not affect the validity of any other obligations contracted prior to the termination.

Done at Panama City, in duplicate, this 10th day of January, 1990, in the English and Spanish languages, each text being equally authentic.

Melvyn Levitsky
Assistant Secretary of State
Bureau of International
Narcotics Matters

For the Government of
the United States of America

Ramon Lima C.
Vice Minister of
Government and Justice

For the Government of
the Republic of Panama

ECONOMIC PROBLEMS IN PANAMA

Mr. ARONSON. Third, the Endara government is committed to putting the people of Panama back to work and the Panamanian economy back on its feet.

Panama faces serious economic problems. Its gross domestic product declined by approximately 16 percent over the past 2 years; unemployment, which had been at 12 percent before the crisis, stood on the eve of Just Cause at 25 percent or higher.

Their external public debt is about $4 billion. Noriega made no debt service payments in the previous 2 years. They have arrearages up to about $540 million with the international financial institutions.

One principal goal of the second tranche of the President's package is to help create a donors group that other governments would contribute to, along with Panama, to clear their arrearages, so they could begin to participate in lending with the financial community.

Obviously, there are many problems in the Panamanian economy, but we look on this as an opportunity, and we have confidence in their ability to rebuild this economy. This is a country that has had strong growth before. They have a vibrant and well-educated work force and entrepreneurial sector. They have sustained growth before, and we think they can again, with our support.

And I would like to commend the Senate and the House for their timely action this week in passing the first half of the President's proposed economic recovery package.

I know you will be considering the supplemental shortly, and we will welcome the committee's views and analysis.

I would like to leave the committee with one message, though, and that is the sense of urgency. I think it is important that we demonstrate to the new Government of Panama and to the international community a vote of confidence in their efforts to rebuild their economy. And I think we need to do that in a timely way.

And all of our hopes for Panama, including our plans to withdraw our troops back to the level prior to Just Cause, really depend on the ability of this new government to sustain itself, to take root, to build support internally and internationally, and economic recovery is crucial to that.

On El Salvador there are many issues we need to address, and a number of committee members raised human rights and the recent FMLN offensive. But the overriding question is how do we end this war in a way that ensures the Salvadoran people enjoy both the democracy and peace for which they yearn?

The Secretary of State testified before the Foreign Relations Committee last week, and I would like to quote what he said. "This is the year to end the war through a negotiated settlement that guarantees safe political space for all Salvadorans."

Today that is not just an idle dream. It is the express wish of the five Central American Presidents embodied in the peace process begun with Esquipulas. The five Central American Presidents met in San Jose from December 10 through 12, as part of the Central American peace process.

This is what they declared at the close of their meeting, and I quote:

The Presidents of Costa Rica, Guatemala, Honduras, and Nicaragua express their decided support to the president of El Salvador, Mr. Alfredo Cristiani, and to his government, as a faithful demonstration of their unvarying policy of supporting governments that are the product of democratic, pluralistic and participative processes.

The presidents of Guatemala, Honduras, Nicaragua, and Costa Rica support the Government of El Salvador in its reiterated intention to find a solution to the Salvadoran conflict by peaceful and democratic means.

FMLN

And in this vein, they reiterated their vehement call to the FMLN immediately and effectively to cease hostilities in that brother country and to reincorporate itself into the process of dialog already undertaken.

Likewise, they demand in energetic form that the FMLN publicly renounce all forms of violent action that directly or indirectly affects the civilian population.

And finally, the five Presidents decided to request in the most respectful manner that the Secretary General of the United Nations, applying the greatest possible personal effort, carry out the actions necessary to reinitiate the dialog between the Government of El Salvador and the FMLN, and to contribute in that way to its successful development.

And although I do not note it in my statement, they also ask the United Nations to play a much more expanded role in carrying out negotiations, in enforcing a cease-fire, in carrying out a process of reincorporation of the FMLN into the political process in El Salvador, in parallel to the process that the five Central Americans asked them to carry out in Nicaragua.

The Secretary General of the United Nations has agreed to heed the five Presidents' call and to assist in promoting renewed negotiations between the Government of El Salvador and the FMLN.

President Cristiani met with the Secretary General on January 31, and agreed to renew the negotiations under the United Nation's good offices. President Cristiani told me also that he welcomes the presence of the Salvadoran church as a witness during the negotiations.

Secretary Baker spoke to Secretary General Perez de Cuellar just last week to voice the administration's strong support for his effort to renew negotiations and help end the war.

The exact role the United Nations will play is being defined now.

The FMLN has given mixed messages, saying it would agree and then saying it might not.

Intelligence reports suggest that it is also considering a renewed offensive against the civilian population.

El Salvador does not need another offensive. El Salvador does not need another round of violence and destruction. El Salvador needs peace, and the only path to peace is at the negotiating table.

Let me describe the kind of negotiations the United States supports. Not posturing, not polemics, and not press conferences. Instead, let both sides commit to come to the bargaining table, and let neither side walk away, no matter what the provocation or excuse.

Let both sides stay and negotiate in good faith until the war is over once and for all.

If the FMLN has legitimate security concerns about returning to democratic civilian rule, and it does, let it voice those concerns. What the FMLN cannot demand at the bargaining table is what it has not had the courage or the will to seek in the electoral process, the mandate of the Salvadoran people to govern El Salvador.

The two sides are not moral or political equals. One side holds its position by the will of the Salvadoran people; the other has selected itself. That was proven again during the recent offensive.

On November 11, the armed guerrillas of the FMLN brought the war home to the population centers of El Salvador with a deadly vengeance. Over 3,000 armed combatants, after first trying to assassinate the entire elected leadership of their country, invaded homes and apartments, barrios of the poor and wealthy suburbs alike.

Thousands of Salvadorans died as a result of that attack upon the city. Some innocent victims were trapped in the combat, and many poor young combatants on both sides.

The Salvadoran Government and armed forces succeeded in turning back this vicious offensive. If they had failed to do so, we would not be talking today about how to start negotiations in El Salvador or defend human rights or advance the rule of law.

The FMLN did not succeed, not only because the Salvadoran Armed Forces successfully repelled their invasion, but also because the Salvadoran people overwhelmingly rejected the guerrillas' call for them to join their ranks, just as they did in 1981.

One of the questions frequently raised by critics of United States policy is this: What has our support achieved? One of the things our support has done is prevent the FMLN from taking over El Salvador and imposing another dreary, vicious Marxist dictatorship upon a nation and a people that want to live in a democracy.

That is not just the view of this administration. I know that view is shared by the Senate. You said so by a vote of 99 to nothing on November 21 in a resolution which condemns the FMLN for initiating the military offensive in El Salvador, which has led to the deaths of hundreds of innocent civilians. And the chairman voiced similar sentiments in his opening remarks.

The Senate also expressed its strongest revulsion at the heinous murders of six Jesuit priests and two women, and demanded that those responsible be brought to justice and punished for their crimes.

The Senate said, "Unequivocally, this case is a pivotal test of El Salvador's democratic and judicial institutions and will be instrumental in determining continued United States support for the Government of El Salvador."

This administration shared and echoed your revulsion. So, to his credit, did President Cristiani. More important than his words were his actions. The Government of El Salvador ordered an immediate investigation of this crime. The entire special investigative unit, the SIU, which was trained with assistance under the U.S. Administration of Justice Program, supported by the Congress, was devoted to this effort.

The Government also invited the Governments of Spain, the United Kingdom, and the United States, both to provide technical assistance and to scrutinize this investigation.

The armed forces, a unit of which was reported to have been in the vicinity of this crime, also cooperated fully in this investigation. Ballistic tests were performed on 400 different weapons; over 400 people were fingerprinted; dozens were polygraphed.

I was given a copy of a CRS translation of the SIU's investigative report, and it is fairly exhaustive and impressive. And I might also give this to the committee for the record, if I might.

[The information follows:]

Summary on the Murder of Six Priests of the Society of Jesus and Two Women in their Service, on the Grounds of "José Simeón Cañas" Central American University (UCA).

Time: From 2:00 to 4:00 a.m. approximately

Date: November 16, 1989

Place: University Residence of the School of Theology of "José Simeón Cañas" Central American University (UCA)

Victims:
Priest Dr. Ignacio Ellacuría
Priest Dr. Segundo Montes
Priest Dr. Amando López
Priest Dr. Ignacio Martín Baro
Priest F. Juan Ramón Moreno Pardo
Priest F. Joaquín López y López
Cooks: Mrs. Elba Julia Ramos
Miss Celina Ramos

Persons Responsible: Under investigation

1. Preliminary Investigation

a. Work carried out by the Forensic Technical Unit
1) At site of event
a) Photographs were taken of a general and specific nature
b) Preparation of maps, general and detailed
c) Gathering of evidence
(1) 19 cartridges, 7.62 x 39 mm. calibre
(2) 126 cartridges, 5.56 mm.
(3) 73 cartridges, 7.62 x 51 mm. calibre
(4) 5 shells, 7.62 x 39 calibre
(5) 3 cigarette butts
(6) 4 shell fragments
(7) Lifting of footprint

b. Work carried out by the National Police Laboratory
1) At site of event
a) Taking of photographs of general and detailed nature
b) Preparation of rough draft
c) Lifting of fingerprints

c. Work carried out by the Explosives Section of the National Police
1) At site of event
a) Taking of photographs of the scene of the crime
b) Preparation of draft
c) Gathering and establishment of evidence related to explosive devices

d. Work carried out by Forensic Doctor of the Forensic Technical Unit and Forensic Doctors of the "Isidro Menéndez" Judicial Center
1) Legal Medical Examination
2) Localization of lesions caused by firearm
3) Autopsies of each of the cadavers
4) Gathering up of garments in order to carry out analysis

2. Subsequent Activities

a. Police Visual Technical Inspection in the parking lot where the following vehicles were found: License plates 41469/88; 96161/88; 47359/88; 30890/88; 91904/88, which show damage caused by explosive device and firearms.

1) Photos were taken
2) Draft was prepared

b. Police Visual Technical Inspection at residence No. 16, Cantábrico Street, Colonia Jardines de Guadalupe, where supposedly Mrs. Lucía Barrera remained during the night on which the Jesuit priests and the two women were murdered, the place where they gathered

1) Hair samples
2) Fiber samples
3) Cigarette butts
4) Fragments of semi-legible prints

c. Preparation of diagrams of the human body with relation to the lesions that the victims display.

3. Analysis of Evidence Gathered

a. Ballistics

- 73 cartridges, 6.62 x 51 mm calibre, found opposite the School of Theology of "José Simeón Cañas" Central American University, all fired by the same weapon.
- 19 cartridges, 7.62 x 39 mm. calibre, found in the following distribution:
-- 11 cartridges on the west side of the School of Theology;
-- 1 cartridge in the room where the body of the priest Joaquín López y López was found
-- 7 cartridges in the place where the rest of the Jesuit priests died, all fired by the same weapon
- 53 cartridges, 5.56 mm calibre, fired by the same weapon
- 41 cartridges, 5.56 mm calibre, fired by the same weapon
- 15 cartridges, 5.56 mm calibre, distributed as follows:
-- 4 cartridges, 5.56 mm. calibre, in the east side of the School of Theology
-- 2 cartridges inside the room where the priest Joaquín López y López died
-- 1 cartridge, 5.56 mm. calibre, inside corridor, lower level
-- 8 cartridges in the place where the priests died, all fired by the same weapon
- 8 cartridges, 5.56 mm calibre, found in the room where the woman and her daughter died, fired from the same weapon
- 4 cartridges, 5.56 mm calibre, found where the woman and her daughter died, fired by the same weapon
- 5 cartridges, 5.56 mm calibre, that are under study

b. Study of the Fingerprints

1) Necrodigital impressions were taken of the six priests who were murdered in the residential complex of "José Simeón Cañas" Central American University (UCA) with the fingerprints of driver registration kept by the National Police, for better identification, having obtained positive results.

2) The fragments of digital prints were compared, those that were found and lifted from the drawers of the desks that are in rooms 1, 11, 12, and 14, located inside of the UCA residential complex, with the necrodigital impressions of the priests, giving a negative result.

3) The fragments of semi-legible digital prints that were found at residence No. 16, located on Cantábrico Street of Colonia Jardines de Guadalupe were compared with the digital impressions taken of witnesses Lucía Barrera and Mr. Jorge A. Cerna Ramírez, the result being that they display some characteristics with those of Jorge A. Cerna Ramírez, but due to the minimum

amount of characteristics one cannot be categorical in determining their identity.

4) Still pending study are the fingerprints gathered from the bedrooms of the Jesuit priests with possible suspects.

e. Microanalysis

1) Analysis of clothing

a) In making the microscopic analysis of all of the tears and scrapes displayed on the clothing of the six priests, the following was found:
--On the clothing of Dr. Ignacio Ellacuría, two perforations that show a ring of dirt
- On the clothing of Dr. Joaquín López y López, four granules of powder

b) The chemical analysis being pending, in order to determine its components, this clothing having been sent to the FBI labs, for its respective chemical analysis, in order to determine the elements that result from a shot of a firearm.

2) Hair analysis

a) In proceeding to the comparative analysis of the hairs collected at residence No. 16 with the hair samples taken from Mrs. Lucía Barrera and Jorge A. Cerna Ramírez, they do not display similar characteristics.

3) Analysis of blackened material

a) Remains of blackened material from the offices located on the lower floor of the School of Theology were collected, in order to send them to the FBI laboratories, in order to determine the physical- chemical substances that produced the fire.

d. Explosives Unit of the National Police

1) In proceeding to the inspection of the case four explosions were located, from which the following was collected:

a) In the first explosion one pipe to hold propelling charge for an M72A2 anti-tank rocket, 66 mm calibre, of U.S. manufacture, also four fins with directional setting of the same weapon and fragments of the device mentioned so that it is deduced that the explosion was due to a light anti-tank "LAW" M72A2 rocket of U.S. manufacture.

Work Carried Out by the Investigations Unit

9:30 a.m., November 16, 1989

- Priests of UCA and immediate neighbors who were found at their houses, located on Catábrico Street are interviewed, stating: That at 2:00 a.m. November 16, 1989, they only heard shots and explosions of bombs.

7:00 a.m., November 17, 1989

- Inspection conducted in the surroundings of the University, in search of the place where the perpetrators supposedly could have entered or left, finding an opening about 100 meters north of the main door to the residence, also tire tracks of vehicles on the sidewalk and pavement, opposite the opening. (See photo)

- On the western side of UCA a wooden door was found that leads to the inside of the facilities, a short distance away tracks of combat boots being found on the soil; according to attachment, they were left the day of the search. (See photo)

- A witness who watches over the DUA store, located opposite the opening, stated that at 11:30 p.m. on November 15, 1989, he heard bullet fire that lasted 15 minutes; 15 minutes later, he heard a distant siren of an ambulance or police vehicle that he did not see, nor did he hear the sound of a vehicle in front, that the opening was made a few days before.

- A witness who takes care of the Alpes de Dios Condominium states: That he woke up from a strong explosion, not seeing anything in the street, then right after that he heard shots and the sound of vehicles racing along the South Expressway, such as from la Ceiba to the East.

- Personnel of the National Police and Treasury Police, who provide security in the "Torre Democracia" Building state: Not having seen vehicles pass by, nor having heard sound of engines, but they did hear shots in the UCA sector.

2:00 p.m., November 20, 1989

- In Acajutla, Obdulio Lozano López, husband of the deceased Elba Julia Ramos and father of Celina Ramos, testifies, stating: That at 8:00 p.m. on November 11, 1989, they placed a bomb at the main door to the residence of the priests; 2:00 a.m., November 16, 1989 he heard shots that lasted 15 minutes, throwing himself to the floor; 7:00 a.m., November 16, 1989, he saw the bodies.

11:00 a.m., November 21, 1989

- The residence where the murdered priests were sleeping is inspected, the priests Estrada and Pedraz stating that they had stolen from the room of Father Ellacuría a music apparatus, Sony brand, laser compact disks, a Panasonic radio-television, $5,000 in 100 colon bills, a check in florins, another in marks and content of attache case; in the room of Father Segundo Montes they stole a Sony portable radio, JCR type; they handed over a manual on what had been stolen.

2:45 p.m., November 21, 1989

- Father Rogelio Pedraz Esteves testifies, stating: 10:00 a.m., November 13, 1989, he put up a sign on the west entrance of UCA announcing that there were no classes; Wednesday, November 15, 1989, he saw the sign in the same form; Thursday, the 16th, in the morning, he saw the same sign in the hands of Father Estrada, which said something about traitors, not in block letters, black color.

3:00 p.m., November 21, 1989

- Father Miguel Francisco Estrada Lemus testifies, stating: That the sign found on the UCA gate said "that they had executed the traitors, win or die, FMLN," he too gathered up cartridges and shells. In a later interview he stated: That the cartridges, shells and sign he had handed over to Lic. Maria Julia Hernández, Chief of Legal Assistance of the Archbishopric.

2:00 p.m. November 22, 1989

- At the Embassy of Spain, Lucía Barrera de Cerna testifies, stating: That she had seen 5 armed subjects through the main door near the chapel, two of them uniformed in camouflage and dark wool caps, who were firing at the residence of the priests, she cannot recognize them.

7:00 a.m., November 23, 1989

- At Embassy of France, Lucía Barrera de Cerna expands statement, saying: That she heard voices of Father Martín Baro, which she could not distinguish, but when the latter talked loudly she heard that he said, "It is an injustice, you're cowards," and sounds as if they were moving furniture.

7:20 a.m., November 23, 1989

- Jorge Alberto Cerna Rodríguez testifies, stating: That he only heard rounds of bullets and sounds as if they were moving furniture, since he did not get up.

- Eight witnesses testify, whose residences are on Cantábrico Street, the back part of their rooms borders lands of UCA, stating:

> - That at 7:30 p.m. November 11, 1989, they heard explosions and shots; the night of Wednesday, November 15, 1989 they heard shots in that sector and far from there, not hearing voices or other sounds.
>
> - That at 8 p.m. November 11, 1989 he heard rounds of shots and at the intersection of Mediterráneo St. and Río Lempa Ave., he saw 8 persons in uniform and with rifles, who were being directed by a woman; he does not describe uniforms, because at that moment the electricity went out, but they were D/T. Also they set bombs at the main door of the residence of the Jesuits, in the early morning hours of November 16, 1989, he heard shots and a bomb near their residence; he did not see anything, nor did he hear more sounds, or voices.
>
> Another stated:
>
> - That at 2:00 a.m. November 16, he heard shooting, which lasted 20 minutes, after that a bomb blast, then silence, then he heard blows, as if they were kicking in some door, immediately more shots that lasted 2 or 3 minutes, not hearing other sounds, nor did he see anything.

10:00 a.m., November 28, 1989

- At house No. 50, Mediterráneo Ave., a woman is interviewed who helps out with domestic chores for the priests and resides in house 21-A, Cantábrico Street, who had been summoned, but she refused to make a statement, saying that in doing so she would have to leave the country. In that same house, Father Tojeira states: That father Pedroza informed him that the watchmen and the men who reside at UCA were not going to testify because they didn't know anything, the same was said by Father Estrada, days before.

10:30 a.m., December 11, 1989

- At house 21-A, again a woman is interviewed, saying: That behind her house and on the UCA campus, at midnight of November 15, 1989, she heard two persons walking, two hours later in the same place she heard a loud explosion, followed by a lot of shooting that lasted 45 minutes, hearing movement such as of 40 persons who were carrying out planned work; that they were kicking at the doors, that they would open and close them; she heard the voice of father Martín Baro; the same when they killed them and they fell to the ground; that she heard that several persons were talking loudly, as in giving orders and for reasons of safety she did not say what they were saying; that she saw flares; that she heard on the roof of her house two subjects that were talking, sharing cigarettes and beers, finding cigarette butts and an empty "Tecate" beer can, not knowing who drank and has that; after the round of shots she heard the sound of the engine of a vehicle that was passing in front of her house; that the perpetrators fled in a northern direction toward the interior of UCA; that they recorded all of this and sent it abroad; that before and after the events she saw members of the Armed Forces around UCA; that her children were there,

but they are out of the country. Investigators observed that from the incline behind the residence there is visibility to the place of the events.

10:20 a.m., November 28, 1989

- Father José María Tojeira Pelaya testifies, stating: That at 8:00 p.m., November 11, 1989, guerrillas of the FMLN placed a bomb at the main door to the residence of the murdered priests; that they entered the UCA campus when they were being pursued by the Army; the next day members of the Armed Forces find the bomb inside UCA, which the D/T had left; on November 13, 1989, in the morning hours, on National Radio, unidentified persons made death threats against Mons. Rivera, Rosa Chávez, Father Ignacio Ellacuría and other UCA Jesuits; 5:30 p.m., November 13, 1989, Father Ellacuría came from Spain via Guatemala, entering through the main door that is along the South Expressway; 8:00 p.m., November 13, 1989, members of the Armed Forces carry out a search of the inside of UCA. November 14, 1989, in the morning, Father Rodolfo Cardenal, who was sleeping in that residence, moved to the Community of Santa Tecla, because of the search and at the suggestion of the declarant, he left for Nicaragua after the burial of the priests since he was nervous; 10:00 p.m., November 15, 1989, he saw pass in front of house No. 50 three uniformed soldiers who were going toward the south along Ave. Río Lempa; that during the night he heard shots that lasted something like 20 minutes, not knowing what was happening; 6:50 a.m., November 16, 1989, Father Estrada informed him that Obdulio was there and who reported the deaths; he handed over 5.56 cartridges, which he found in the place where they murdered the woman for their study; that what Lucía said, when she heard the shots and comments of her companion, he deduces that there were something like 30 persons who had participated in the act; but he did not remember the sources, because of the confusion, but they had told him that they had seen flares and that the perpetrators had remained from 1:00 to 5:00 a.m.; that he named Lic. María Julia Hernández to investigate the events, and for him to report to his superiors in Rome; he does not know what results Lic. Hernández has, in her investigation.

11:00 a.m., November 28, 1989

- Father Francisco Javier Ibisate San Miguel testifies, stating: That during the night of November 15, 1989, he heard quite heavy firing with explosions of bombs and sound of glass breaking; that he did not see flares, even though the sector was dark. All the witnesses say that the sector was without electrical energy.

November 29, 1989

- All the residents in the houses of Cantábrico and Mediterráneo Street are interviewed, also those of Albert Einstein Avenue, stating:

- Some stated that they had not slept in their house that night

- Others only heard the bullets and bombs

- A couple from house 21-B, on Cantábrico Street said: That they heard shots at about 2:00 a.m. on November 16, 1989, also the sound of the engine of a heavy vehicle seemingly from the same truck that comes to provide the relief for the soldiers who are in front of the UCA main entrance, along the South Expressway.

8:30 a.m., December 5, 1989

- The UCA watchmen begin to make statements, stating: That two of them were on duty in the daytime, leaving for their houses; five remained at the UCA facilities.

- That from November 11, 1989, when the conflict began, they stayed at night, on UCA property, behind the food store.

- That the night of November 11, 1989, D/T placed a bomb at the main door of the residence of the fathers, through which they entered UCA.

- That the morning of November 12, 1989, members of the Armed Forces deactivated a bomb that did not go off and that was adjacent to that main door on the inside.

- That the night of November 13, 1989, they searched UCA, entering through a wood door which is by undeveloped property along Ave. La Sultana.

- That at 2:00 a.m. on November 16, 1989, they heard an exchange of shots and bombs, which lasted about a half an hour.

- That on days previous, they only saw movement of troops along the South Expressway.

- Four of them add that at 6:30 a.m. on November 16, 1989, they woke up and saw opposite the food store some vehicles with broken glass, so that immediately they left UCA for their houses and when they were going out the main door that leads to Cantábrico St., they saw soldiers around that place. That they did not see Lucía Barrera or the bodies.

- One of the five added that they all went to check the inside of UCA, seeing some vehicles with the glass broken in the parking lot opposite the food store and one with the doors open; immediately they went to the chapel and from there they saw the shapes of four persons, who were down on the grass in front of the residence of the fathers.

- Another of the five added that two watchmen left through the chapel in order to try to find some priests, in order to check UCA, because of the rounds of shots and about three minutes later they returned, saying: That they had seen four shapes in front of the residence of the priests and that they had also run into Lucía Barrera.

1:30 p.m., December 7, 1989

- A person who resides by the main entry gate to UCA, South Expressway side, testifies, stating: That at 8:00 p.m. on November 11, 1989, he heard shots and bombs, around Jardines de Guadalupe and the surrounding area which lasted until midnight; - November 12, 1989, in the morning, there were already troops at that entrance; - November 13, 1989, in the afternoon Father Ellacuría opens that gate, he was coming from abroad, being accompanied by Father Amando López; November 14, 1989, in the morning, on checking where those of the search had entered from, he observed that they had done it through a wooden door that is on Ave. La Sultana; 2:00 a.m., November 16, 1989, he only heard rounds of shots quite near, not pinpointing the place; in the morning when he got up he saw the lock of that main door on the street side.

12:00 noon, December 11, 1989

- The person who resides in the UCA printing shop testifies, stating: That by public voice he learned that on the night of November 11, 1989, D/T placed a bomb at the main door of the residence of the priests, entering UCA; that the night of November 13, 1989, they searched UCA; November 14, 1989 in the morning, he observed that the ones of the search had broken the lock of the main door that faces Cantábrico St., and they had also knocked down a wooden door on the side of Ave. La Sultana, places through which they had entered; at 1:00 a.m. on November 16, 1989, he heard a round of shots and bombs, which lasted an hour and a half, not pinpointing where it was; 8:00 a.m., November 16, 1989, together with the priests Estrada, Pedraz and Salazar, he found at the main entry of Cantábrico Street a sign that said "There are no classes" and on the reverse, "Massacre of the Jesuits priests for being traitors, FMLN," remaining in the possession of father Estrada; that also this father picked up three or four cartridges, around the parking lot of the chapel.

December 11, 1989

- Published in the newspapers is the reward of a quarter of a million dollars, which the Government of El Salvador offers, for information on the case; that same day telephone 23 11 67 goes into service to receive information.

- All the military personnel that provided security for the Military Complex during the days November 15 and 16, 1989 are being investigated, in order to determine their guilt or innocence in the event being investigated.

STATISTICAL CHART ON STEPS TAKEN

CASE: "JESUITS"

FROM NOVEMBER 16 TO DECEMBER 24, 1989

Interviews	77
Statements of neighbors	14
Statements of circumstantial witnesses	01
Statements of D/T informants	01
Statements of UCA priests	04
Statements of UCA residents	03
Statements of UCA watchmen	07

Statements of Chiefs of the Armed Forces

Treasury Police	01
CITFA	01
Total	02

Statements from Armed Forces Officers

DM-7	04
Military School	01
DM-6	03
"CEAT" Treasury Police	04
"CITFA"	01
Treasury Police	01
DM-4	01
Atlacatl Battalion	02
TOTAL	17

Statements of Troops of the Armed Forces

Treasury Police	07
National Police	12
DM-7	10
"CEAT" Treasury Police	07
Atlacatl Battalion	31
TOTAL	67

Documents Sent to Different Institutions

01. - Document No. 0441, dated December 5, 1989, to the Chief of EMCFA / Joint Chiefs of Staff of the Armed Forces/, asking for a list of the personnel that carried out the search of UCA on November 13, 1989.

02. - Document No. 0445, dated December 7, 1989, addressed to the Chief of EMCFA, asking him for a report whether the ammunition types used in the death of the Jesuits belong to the Armed Forces; affirmative case, that Units have been equipped with that type of ammunition.

03. - Document No. 0448, dated December 11, 1989, addressed to the Chief of EMCFA, asking him to send list of personnel that gave protection in the area of the Military Complex and its surroundings, especially on November 15, and 16, 1989.

04. - Document No. 0449, dated December 11, 1989, addressed to the President of the Lempa River Hydroelectric Executive Commission (CEL), asking him the reason for the electrical energy blackout in the Antiguo Cuscatlán sector and its surroundings, especially UCA, during November 15 and 16, 1989.

05. - Document No. 0450, dated December 11, 1989, addressed to the Director of Cartography, asking him for an updated photographic map of UCA and its surroundings.

06. - Document No. 0451, dated December 11, 1989, addressed to the Director of DUA, asking him for maps on distribution of rainwater existing in UCA and surrounding area

07. - Verbally coordination is going on with EMCFA, so that the personnel that provided security service in the area of the Military Complex and surroundings will appear to testify; at the same time, taking of their fingerprints, polygraph test and ballistic test of their respective weapon.

08. - Document No. 0458, dated December 15, 1989, addressed to the Director of DNI, asking him for information on the ERP /People's Revolutionary Army/ terrorist group at the metropolitan level.

09. - Document No. 0459, dated December 15, 1989, addressed to the Chief of EMCFA, asking him for information on the results obtained in the search conducted on November 15, 1989 in the retreat house "San Ignacio Noyola," name of institution and staff of the Armed Forces who carried it out.

10. -Document No. 0460, dated December 16, 1989, addressed to the Chief of EMCFA, asking him for information on whether vehicles of the CUSEP were stolen by D/T during the days November 11, 1989 to November 16, 1989; case affirmative detail on the same. In addition in it a certified photocopy is requested of the sworn statement given by that office in relation to the murder of the UCA Jesuits.

11. -Document No. 0469, dated December 19, 1989, addressed to the President of the National Telecommunications Administration (ANTEL), asking him for recordings or transcripts of radio broadcasts of "Radio Venceremos" and "Radio Farabundo Marti," corresponding to the early evening and night hours of November 15, 1989.

12. -Document No. 0467, dated December 20, 1989, addressed to the Chief of EMCFA, asking him for the list of personnel of the Military Police that provided security to the Military Complex, on a hill located on the east side of UCA and south of Torre Democracia, between 6:00 p.m. November 15, 1989 and 7:00 a.m. on November 16, 1989.

13. -Document No. 0468, dated December 20, 1989, addressed to the Director of the National Guard, asking him for the name of the agent of that group that died between 8:00 p.m. and 9:00 p.m. November 15, 1989 near the Colonial Theater in Antiguo Cuscatlán and names of agents that were accompanying him at the time of the event.

Gathering of Ballistic Samples

"CEAT" of the Treasury Police	122
DM-7	090
DM-6	104
Atlacatl Battalion	045
Monserrat Battalion, National Police	017
Libertadores Battalion, Treasury Police	007
Total:	385

Polygraph Tests and Results

Chiefs, Armed Forces	
Treasury Police	001
Results: (Positive (True)	
Officers of Armed Forces	
Treasury Police	001
Results: Positive (True)	
Military School	001
Results: Positive (True)	
DM-7	003
Results: Positive (True)	
Atlacatl Battalion	002
Results: Positive (True)	
Personnel of Armed Forces Troops	
DM-7	002
Results: Positive (True)	
Civilians	002
Results: Negative (Lying)	
Civilian Person	001
Results: Positive (True)	
D/T Informant	001
Result: Negative (Lying)	
TOTAL:	14

Fingerprints

Treasury Police	122
DM-7	092
DM-6	103
Atlacatl Battalion	045
Monserrat Battalion, National Police	017
Libertadores Battalion, Treasury Police	006
TOTAL:	385

Mr. ARONSON. Nine individuals, one Salvadoran colonel, three lieutenants, and five enlisted men have been charged with the crime. Eight are in custody, one has fled and is being sought.

Eight of them are being held under provisional detention. The judge has verified that there is sufficient evidence to establish a prima-facie case against the accused. But he may direct that further evidence be accumulated to prepare for trial.

The investigation into the murder of these churchmen and their colleagues is not over. And we have been assured by President Cristiani that it will not end until every possible question and lead has been exhaustively investigated. Nothing is off limits, and no one who might be implicated, whatever his rank, is or should be above the law.

I believe Congress wants to know that this administration and the Government of El Salvador are committed to advance the rule of law and defend human rights not only in celebrated cases and not only when Congress makes future aid conditional on a successful investigation, but in the daily life of El Salvador as a fundamental goal of United States policy.

We accept that responsibility because we share that commitment. That is why we reminded President Cristiani during his recent visit of our interest in other cases, cases which may not have as high a profile, but which concern us as much.

And I would note in that regard that the first action this administration took toward El Salvador within 3 weeks of taking office was a visit by the Vice President to El Salvador, where he demanded an investigation of an alleged massacre that had occurred in the previous year.

There was no congressional pressure on us to do that, and no aid was conditioned. Indeed, there was little focus beyond the human rights community on the victims of this atrocity.

We took that action because we believe human rights must be defended and the rule of law must become the norm in El Salvador and throughout Latin America.

I would also note that the armed forces responded to that call and investigated this crime, again, with the help of the SIU. And a major, two lieutenants, and nine enlisted men are now about to go on trial.

I make this point because those who care about El Salvador have voiced legitimate concern that political space was narrow during the final offensive, and we and the Salvadoran government must work to expand and ensure safe political space for all.

I believe President Cristiani shares that commitment. He demonstrated that again recently by sending back to the national assembly a proposed revision of the penal code, because he rightfully objected to certain vaguely worded provisions that could easily threaten civil liberties.

And I would note also that the Secretary of State mentioned to President Cristiani when he was here that we would hope that the state of exception that still currently exists in El Salvador would be lifted as soon as possible.

It is also necessary to remember that human rights and the rule of law would also be advanced enormously in El Salvador if the FMLN would stop murdering in cold blood innocent Salvadoran

citizens, most of them noncombatants, and some of them simply members of the families of their political adversaries.

In a 1-year period which ended in March 1989, the FMLN assassinated 12 elected mayors and threatened 214 others with death. We have an exalted image of a mayor in this country, but these are humble people, many of them campesinos who hold these posts with virtually no compensation, and try to provide some modicum of services—a school house, a road, a well—to their fellow Salvadorans.

This is the tally of FMLN assassinations just last year. In January 1989, the FMLN executed the Governor of Usulutan, and wounded the 75-year-old mother of the minister of defense.

In February, the FMLN assassinated a former guerrilla named Miguel Castellanos, who had rejected revolutionary violence and rejoined the democratic process.

Francisco Peccorini, age 75, a former Jesuit, was murdered by the FMLN on March 15. He was a conservative writer and thinker.

Carlos Ernesto Mendoza, editor of a conservative intellectual journal, lost his arm in a bomb explosion on April 5.

The FMLN attacked the home of the president of the legislative assembly in March, May, and November. It set off a bomb in April in the home of the vice president-elect, while his four children were in the house along with three playmates, and he was out of the country.

The FMLN assassinated the attorney general of El Salvador on April 12, and the chief of staff to the president, Rodriquez Porth, aged 73, on June 9.

They shot to death Col. Roberto Armando Rivera on June 25. They killed a conservative thinker, Edgar Chacon, on June 30. They murdered his assistant, Guillermo Payes, on July 19.

They wounded the 72-year-old father of a colonel in the 3d Brigade in September. They assassinated the wife and son of a newspaper editor, Luis Hernandez, on October 10.

On October 17, while FMLN representatives sat across the negotiating table with the government in San Jose, FMLN killers assassinated Maria Isabela Casanova, the daughter of an active duty colonel in the Salvadoran Armed Forces. The day she was murdered was her 23d birthday.

Despite that killing, it was not the government or the armed forces of El Salvador that walked away from the negotiating table, it was the FMLN.

Just to round out the story, the FMLN also tried to assassinate President Cristiani, Vice President Merino, the first delegate and president of the national assembly on November 11, the night the offensive began.

That is the equivalent, in terms of constitutional succession, of trying to murder the President, Vice President, Speaker of the House and President pro tempore of the Senate in the United States.

And during the final offensive, the FMLN shot to death the former Supreme Court Chief Justice, Chachi Guerrero.

There is no political, moral, or tactical justification for the FMLN's campaign of assassination. It is murder pure and simple.

And it defines the FMLN in a way that gives light to all its professed desire for peace and liberation.

Mr. Chairman, in closing, let me say that the time has come to end the killing in El Salvador.

When I spoke before the Senate Foreign Relations Committee on November 17, I said many will try to exploit Father Ellucuria's memory and name, but the only fitting memorial is a renewed commitment on the part of the international community to mobilize whatever resources and pressures that can be brought to bear to negotiate an end to the conflict in El Salvador and guarantee safe space in the democratic process for all.

Senator LEAHY. Mr. Aronson, I could not disagree with you more on that.

The only fitting memorial is to keep on saying, well, we would like to bring the parties together.

Baloney.

The fitting memorial might be to have the United States once and for all say, we will stop sending money to the people who are doing these killings.

You say many will try to exploit Father Ellucuria's memory and name, but the only fitting memorial is a renewed commitment.

I think that is the kind of shortsightedness that has characterized the policy in El Salvador for a decade. As long as the groups that do the killing know that we will talk piously about our commitment to human rights up here, but will not do one damn thing to put restraints on them, the killings go on.

I think a fitting memorial would be finally, once and for all, to say—having made a threat every year that next year we are going to cut you off if this goes on—that we actually mean it. We should actually do it, and actually bring the pressure so that those who might want to stop the killings down there have some leverage. That would be a fitting memorial.

Should the parties negotiate? Of course they should.

Can there be a military solution to the conflict down there? No; nobody feels that there can be. Our military advisors do not feel they can. The high command of the Salvadoran military does not feel there can be a military solution. The FMLN does not feel there can be a military solution.

But the fact is that the death squads will continue if they think that we are not going to do a thing to cut them off. That is my concern. Do you agree that if we actually sent real pressure to the military that we are serious about human rights and negotiations, that those two things might actually have an effect?

Mr. ARONSON. I take it my statement is over?

Senator LEAHY. Yes; I think we might go to the questions.

Mr. ARONSON. OK.

PREPARED STATEMENT

I would have liked to have finished, but I understand.

Senator LEAHY. Well, we will give you time after and your full statement will be in the record.

[The statement follows:]

STATEMENT OF BERNARD W. ARONSON

Mr. Chairman: I understand that you and other members of the Subcommittee have recently returned from a visit to both Panama and El Salvador and that you wish me to address U.S. policy towards both nations today.

Let me touch on Panama first briefly, then El Salvador, and then take the Committee's questions.

Panama has an opportunity today which few nations or individuals ever enjoy: the chance to start anew. The Panamanian people, through their own long struggle and sacrifice and through the inspiring operation Just Cause have now been freed of the brutal, corrupt, oppressive military dictatorship under which they lived for the past two decades.

Panama is now led by the three brave and decent leaders whom the Panamanian people, themselves, elected to office last May 7th. This new government has three principal goals, all of which the United States supports, and all of which are vital to sustain and institutionalize the new democracy which has been born in Panama.

First, the Endara government is committed to restructure and reform their military into a new, smaller, civilian led police force, so that never again will the people of Panama live under the boot of military dictatorship. None of the 17 Colonels who served Noriega will serve in this new force; all but 3 of the 19 lieutenant colonels have been mustered out along with over 140 majors and captains.

Second, the Endara government is committed to root out the corruption, drug trafficking, and money laundering that robbed the Panamanian people of their resources and their national dignity. When the government reopened its banks for business following Operation Just Cause, it first asked the United States to provide information about accounts that should be frozen pending drug investigations and on its own initiative has frozen over 300 such accounts. On January 10th, Assistant Secretary Mel Levitsky and Vice Ministers of Government and Justice Ramon Lima signed a Mutual Cooperation Agreement between the United States and Panama pledging cooperation on combatting drug trafficking, including money laundering. We intend to press hard on these issues, particularly money laundering, in the weeks and months to come.

Third, the Endara government is committed to putting the people of Panama back to work and the Panamanian economy back on its feet. Panama faces serious economic problems. Its gross domestic product (GDP) declined by approximately 16 percent over the past two years. Unemployment, which had been at 12 percent before the crisis, stood on the eve of Just Cause at 25 percent or higher. Total external public debt is projected at $4 billion, and the ratio of external debt to GDP is one of the highest in the world. The Noriega regime made no debt service payments for over two years, and the Endara government has inherited arrearages of $940 million to international financial institutions and commercial banks. The short period of civil disturbance and looting which followed the collapse of the Noriega regime caused additional damage and has particularly hurt private business.

Still, we are optimistic about the future. For the Panamanians have much to build on: a trained and educated entrepreneurial sector a skilled and committed work force and an economy that has performed strongly in the past. The ability of the Panamanian economy to revive and begin to grow is directly related to the long-term prospects of this new democracy to take root and grow strong. U.S. assistance is needed and I commend the House and Senate for their timely action Wednesday in passing the first half of the President's proposed economic recovery package and sending it on to the President. I know you will be considering the supplemental shortly. We welcome the committee's views and analysis; but if I could leave one message it is a sense of urgency in moving as quickly as we can together. All of our hopes for Panama's future, including plans to reduce our troops levels are dependent on such timely action.

On El Salvador, there are many issues we need to address: the recent FMLN offensive and wave of assassinations; the need to re-open political space and defend human rights; but the over-riding question is: how do we end this war in a way that ensures the Salvadoran people enjoy both the democracy and peace for which they yearn?

Secretary of State Baker told the Senate Foreign Relations Committee last week," this is the year to end the war through a negotiated settlement that guarantees safe political space for all Salvadorans."

Today, that is not just an idle dream. It is the expressed wish of the five Central American Presidents embodied in the peace process begun with Esquipulas.

The five Central American Presidents met in San Jose from December 10-12 as part of the Central American peace process. This is what they declared at the close of their meeting:

"The Presidents of Costa Rica, Guatemala, Honduras, and Nicaragua expressed their decided support to the President of El Salvador, Mr. Alfredo Cristiani, and to his government, as a faithful demonstration of their unvarying policy of supporting governments that are the product of democratic, pluralistic and participative processes.

The Presidents of Guatemala, Honduras, Nicaragua and Costa Rica support the Government of El Salvador in its reiterated intention to find a solution to the Salvadoran conflict by peaceful and democratic means, and in this vein, they reiterated their vehement call to the FMLN immediately and effectively to cease hostilities in that brother country and to reincorporate itself into the process of dialogue already undertaken. Likewise, they demand in energetic form that the FMLN publicly renounce all forms of violent action that directly or indirectly affects the civilian population. The five Presidents decided to request in the most respectful manner that the Secretary General of the United Nations, applying the greatest possible personal effort, carry out the actions necessary to reinitiate the dialogue between the Government of El Salvador and the FMLN and to contribute in that way to its successful development."

The Secretary General of the United Nations has agreed to

heed the five Presidents' call and to assist in promoting renewed negotiations between the Government of El Salvador and the FMLN. President Cristiani met with the Secretary General on January 31 and agreed to renew the negotiations under the UN's good offices. President Cristiani told me also that he welcomes the presence of the Church as a witness during the negotiations.

Secretary Baker spoke to Secretary General Perez De Cuellar just last week to voice the Administration's strong support for his effort to renew negotiations and help end the war. The exact role the UN will play is being defined now. The FMLN has given mixed messages; saying it would agree; and then saying it might not. Intelligence reports suggest it is also considering a renewed offensive against the civilian population.

El Salvador does not need another offensive. El Salvador does not need another round of violence and destruction. El Salvador needs peace and the only path to peace is at the negotiating table. Let me describe the kind of negotiations the United States supports; not posturing; not polemics; and not press conferences.

Instead, let both sides commit to come to the bargaining table and let neither side walk away no matter what the provocation or excuse. Let both sides stay and negotiate in good faith until the war is over once and for all.

If the FMLN has legitimate security concerns about returning to democratic civilian life--and it does--let them voice those concerns. What the FMLN cannot demand at the bargaining table is what it has not had the courage or the will to seek in the electoral process: the mandate of the Salvadoran people to govern El Salvador. The two sides are not moral or political equals. One side holds its positions by the will of the Salvadoran people; the other has selected itself. That was proven again during the recent offensive.

On November 11th, the armed guerrillas of the FMLN brought the war home to the population centers of El Salvador with a deadly vengeance. Over 3,000 armed combatants, after first trying to assassinate the entire elected leadership of their country, invaded homes and apartments, barrios of the poor and wealthy suburbs alike. Thousands of Salvadorans died as a result of that attack upon the cities; some innocent victims were trapped in the combat; many poor, young combatants on both sides.

The Salvadoran government and armed forces succeeded in turning back this vicious offensive; if they had failed to do so we would not be talking today about how to start negotiations in El Salvador or defend human rights or advance the rule of law. The FMLN did not succeed, not only because the Salvadoran armed forces successfully repelled their invasion; it did not succeed because the Salvadoran people overwhelmingly rejected the guerrillas call for them to join their ranks just as they did in 1981.

One of the questions frequently raised by critics of U.S. policy is: what has our support achieved? One of the things our support has done is prevent the FMLN from taking over El

Salvador and imposing another dreary, vicious Marxist dictatorship upon a nation and a people that want to live in a democracy. That is not just my view or the views of this Administration; I know they are shared by the Congress as well. You said so by a vote of 99 to 0 on November 21st, in a Resolution which "condemns the FMLN for initiating...the military offensive in El Salvador which has led to the deaths of hundreds of innocent civilians."

The Senate also expressed its "strongest revulsion" at the heinous murder of six Jesuit priests and two women and demanded that those responsible be brought to justice and punished for their crimes. The Senate, said "unequivocally ...this case is a pivotal test of El Salvador's democratic and judicial institutions and will be instrumental in determining continued United States support for the Government of El Salvador."

This Administration shared and echoed your revulsion. So to his credit did President Cristiani. More important than his words, were his actions. The Government of El Salvador ordered an immediate investigation of this crime. The entire Special Investigative Unit--the SIU--which was trained with assistance under the U.S. Administration of Justice Program, supported by the Congress--was devoted to this effort. The government also invited the governments of Spain, the United Kingdom, and the U.S. both to provide technical assistance and to scrutinize this investigation.

The armed forces, a unit of which was reported to have been in the vicinity of this crime, also cooperated fully in this investigation. Ballistic tests were performed on 400 different weapons; over 400 people were fingerprinted; dozens were polygraphed; and more than 150 were interviewed. Nine individuals, one Salvadoran Colonel, three lieutenants, and five enlisted men have been charged with the crime; eight are in custody; one has fled and is being sought.

On January 19th, the Judge in the case found that there was sufficient evidence to hold all eight prisoners under provisional detention. As I understand Salvadoran law, that means the Judge has verified that there is sufficient evidence to establish a <u>prima facie</u> case against the accused, but he may direct that further evidence be accumulated to prepare for trial. The investigation into the murder of these churchmen and their colleagues is not over, and I have been assured by President Cristiani that it will not end until every possible question and lead has been exhaustively investigated. Nothing is "off limits" and no one who might be implicated--whatever his rank--is above the law. Going into the prosecution phase, the docket has been cleared to expedite the handling of this case.

I believe Congress wants to know that this Administration and the Government of El Salvador are committed to advance the rule of law and defend human rights, not only in celebrated cases, and not only when Congress makes future aid conditional on a successful investigation, but in the daily life of El Salvador as a fundamental goal of U.S. policy. We accept that responsibility because we share that commitment. That is why we reminded President Cristiani during his recent visit of our

interest in other cases--cases which may not have as high a profile but which concern us as much.

I would note, in that regard, that the first action this Administration took towards El Salvador, within three weeks of taking office, was a visit by the Vice President where he demanded an investigation of an alleged massacre that had occurred, not on this Administration's watch, but in the previous year. There was no congressional pressure on us to do that; no aid was conditioned. Indeed, there was little focus beyond the human rights community on the victims of this atrocity. We took that action because we believe human rights must be defended and the rule of law must become the norm in El Salvador, and throughout Latin America. I would also note that the Armed Forces responded to that call, investigated this crime, again with the help of the U.S. trained Special Investigative Unit, and that a major, two lieutenants, and five enlisted men are soon to go on trial.

I make this point because those who care about El Salvador have voiced legitimate concern that political space was narrowed during the final offensive, and we and the Salvadoran Government must work to expand and ensure safe political space for all. I believe President Cristiani shares that commitment; he demonstrated that again recently by sending back to the National Assembly a proposed revision of the penal code because he rightfully objected to certain vaguely worded provisions that could easily threaten civil liberties.

It is also necessary to remember that human rights and the rule of law would also be advanced enormously in El Salvador if the FMLN would stop murdering in cold blood innocent Salvadoran citizens, most of them non-combatants, some of them simply members of the families of their political adversaries. In a one year period, ending in 1989,the FMLN assassinated 12 elected mayors and threatened 214 others with death. We have an exalted image of a mayor in this country; but these are humble people, many of them campesinos who hold these posts, with virtually no compensation, and try to provide some modicum of services--a school house, a road, a well--to their fellow Salvadorans.

This is the tally of prominent FMLN assassinations just last year. In January 1989 the FMLN executed the Governor of Usulutan, and wounded the 75-year-old mother of the Minister of Defense. In February the FMLN assassinated a former guerrilla, named Miguel Castellanos, who had rejected revolutionary violence and rejoined the democratic process, the very next day after he was visited by your colleague Representative Dave McCurdy of Oklahoma. Francisco Peccorini age 75, a former Jesuit, was murdered by the FMLN on March 15th; he was a conservative writer and thinker. Carlos Ernesto Mendoza, editor of a conservative intellectual journal, lost his arm in a bomb explosion on April 5th. The FMLN attacked the home of the President of the Legislative Assembly in March, May, and November and set off a bomb in April in the home of the Vice President-elect while his four children were in the house, along with 3 playmates, and he was out of the country. The FMLN assassinated the Attorney General of El Salvador on April 12th and the Chief of Staff to the President, Rodriquez Porth, aged 73, on June 9th. They

shot to death Colonel Roberto Armando Rivera on June 25th; a conservative thinker Edgar Chacon on June 30th and his assistant, Guillermo Payes on July 19th. The 72-year-old father of the 3rd Brigade Colonel was wounded in September; the wife and son of newspaper editor Luis Hernandez were assassinated on October 10th. On October 17th, while FMLN representatives sat across the negotiating table with the government in San Jose, Costa Rica, FMLN killers assassinated Maria Isabel Casanova Porra, the daughter of an active duty Colonel in the Salvadoran armed forces. The day she was murdered was her 23rd birthday. Despite that killing, it was not the government or the armed forces of El Salvador that walked away from the negotiating table; it was the FMLN. Just to round out the story, the FMLN also tried to assassinate President Cristiani, Vice President Merino, the First Delegate and President of the National Assembly on November 11th the night the offensive began; that is the equivalent in terms of Constitutional succession of trying to murder the President, Vice President, Speaker of the House, and President Pro Tempore of the Senate in our own country. And during the final days of the recent offensive, the FMLN shot to death on the streets of San Salvador the former Supreme Court chief justice. There is no political, moral, or tactical justification for the FMLN's campaign of assassination. It is murder, pure and simple and it defines the FMLN in a way that gives lie to all its professed desire for peace and liberation.

The time has come to end the killing in El Salvador. I would like to repeat what I told the Senate Foreign Relations Committee on November 17th. "Many will try to exploit Father Ellucuria's memory and name, but the only fitting memorial is a renewed commitment on the part of the international community to mobilize whatever resources and pressures can be brought to bear to negotiate an end to the conflict in El Salvador and guarantee safe space in the democratic process for all."

We are now in the final years of a full decade of this long, bitter, bloody war. The way to end the war is for both sides to recognize that endless combat is grinding up the nation, squandering its youth and its treasure. The way to end the war is for all sides to recognize that change was necessary in the El Salvador; change has taken place, but more change is needed. The way to end the war is for Salvadorans of all political persuasions to recognize that Salvadorans have been killing Salvadorans long enough.

The last time I was in El Salvador, I met with a large group of trade union and political opposition leaders, including Ruben Zamora and Guillermo Ungo. We spoke about an hour and when I looked around the table, I was struck by the lines of weariness etched in their faces and how much some of them had aged since I first met them in 1983. You could see the weight of war and suffering and death in their faces.

The Salvadoran people feel this weight; the war is grinding them down. The messianic murderers on the extreme left and right are fighting for a vision that history has passed by; El Salvador will never be Cuba or Sandinista Nicaragua; nor will it or should it ever return to the feudal, dictatorial past out of which it has emerged.

But El Salvador can evolve into something better; it can evolve into a nation at peace; it can evolve into a nation whose youth is not ground up in violence and whose resources are not consumed by the need either to rebuild the buses, tractors, power lines, and trains the guerrillas destroy with impunity or to sustain a defense force large enough to prevent the nation from being overrun by revolutionary violence. El Salvador can know both democracy and peace, and with it social justice; that is the vision of the Central American Presidents and that is the goal of U.S. policy.

FATHER ELLUCURIA

Mr. ARONSON. Senator, I do not know if you have ever had a chance to talk to Father Ellucuria or knew him; I did. And in the last conversation that we had, his preoccupation and what he wanted to do, and what, in fact, he was trying to use his own influence on, was to end the war.

And I do not want to argue with you which is more important, because I happen to agree with you that defending human rights is essential. And that is why I said that in my statement.

But I would not like to leave the impression, because I have heard it from Father Ellucuria's own lips, that he would not believe that would be a fitting memorial.

In fact, one of the tragedies of his loss is that he was one of those people who had evolved in El Salvador. He said some positive things about President Cristiani in one of the last interviews of his life, even though he was a strong critic of United States policy.

As you said some kind things about President Cristiani, he was trying to find a way to negotiate an end to the war.

Senator LEAHY. I do not think you are addressing my statement, Mr. Secretary.

Mr. ARONSON. But you suggested that what I said was not an appropriate memorial. And I would say, based on what I heard from the man himself, there was nothing he wanted to do more than to try to bring an end to the war. And if you want to end the killing, then that is what we ought to be pressing our efforts to do.

Senator LEAHY. Then let us go to that question.

CONDITIONING MILITARY AID

Seven years ago you testified in the House. You said that the United States should condition military aid on progress toward land reform, on restructuring the military, on an end to the death squads, on making it possible for critics of the government to survive.

What you said was, "If you directly tie military assistance levels to demand a specific date for the restructuring of the military, you put real leverage in the hands of the people who are fighting our battle." You were talking about those fighting for democracy.

You also said we should tie our aid to the establishment of tribunals where genuine justice can be done. And you said a number of other things.

I think you were absolutely right back then. You said the Salvadorans already know our aid is not without strings. Well, how do they know that? I mean when have we ever put a string on our aid down there?

I have heard speeches from you and from Members of Congress and from everybody else over the years. And please do not take this personally because we hear it every year.

In fact, when the atrocities get bad enough, we usually pass a toothless sense of the Senate resolution that we are outraged by death squads on the right and the left, as though any sane human being would not be outraged by them, but we never do anything.

Now what can you tell us that we have done in holding back aid or putting strings on aid that might actually bring the parties either to the negotiating table or get the Salvadoran military to actually allow some kind of an investigation and prosecution of people involved in the death squads? Have we ever done anything?

Mr. ARONSON. Of course, and I think the record over the last 7 years has shown that.

Senator LEAHY. What have we done? Have we ever made a threat on the restriction of aid and carried it out?

Mr. ARONSON. As I remember, President Carter cut off aid in late 1980 right before the final offensive on human rights grounds, and then it was reinstated when the FMLN went in to attack the country as it did in 1989.

Senator LEAHY. We have given a lot of aid between 1980 and 1989.

Let me make it very specific, then. We have been concerned about death squads operating using U.S. military aid. We pick up most of the tab for the Salvadoran military. Have we ever once made a threat to withhold or restrain that military aid in the last 10 years and then actually followed through with that threat?

Mr. ARONSON. And follow through with it? You mean cut off the aid?

Senator LEAHY. Cut off, fenced it, withheld it or anything else.

Mr. ARONSON. I am not really privy to all the conversations over the last 10 years.

Senator LEAHY. Let us take the last 3 years.

Mr. ARONSON. Or the last 3 years. I have been in this job since June, but I will tell you what——

Senator LEAHY. Let us take since June and work back.

Mr. ARONSON. If I could try to address the question, implicit in our policy over the last 6 years has been a consensus in the Congress that has had bipartisan support that our aid should not be a blank check, that it should only be provided to El Salvador if we see steady progress in certain directions: one, in creating a genuine electoral democracy; two, in creating the rule of law disciplining those who practice political violence; and third, hopefully creating an atmosphere in which there can be negotiations.

The fact is that every year in which we have been so engaged with El Salvador, political violence from the right has gone steadily down. So that does not suggest that aid feeds the violence. If the aid fed the violence, the violence would have either continued or increased. Instead, it has gone dramatically down.

Senator LEAHY. Gone down? You mean the death squads within the military have killed less people. There are less people to kill. When you look at the targets they had 5 to 10 years ago, one-half of them have been killed.

Mr. ARONSON. Senator, I think when killing stops and decreases, that is a good thing. You do, too, I suspect.

Senator LEAHY. You are missing my point, Mr. Secretary, but go ahead.

Mr. ARONSON. We need, obviously, to send a signal to the Salvadoran government that if certain things happen or do not happen, aid would be threatened; but it is a delicate balance because there is another party to this conflict. I just described the killings on the other side. You have to ask yourself——

Senator LEAHY. We are not sending aid to them, though, are we?

Mr. ARONSON. Senator, we do not send aid to the Khmer Rouge, but if we are going to have a serious policy toward Kampuchea, we had better understand the nature of that force given what its history has been in that country. If we are going to have a policy toward El Salvador, we need to understand the nature of the FMLN if we are serious about protecting people from political violence.

Of course, we do not send aid to the FMLN. Unfortunately, the Cubans and the Sandinistas do.

Senator LEAHY. Maybe this is the best way to ask this question. Are you aware, either since you have been there or before, where we have threatened to withhold military aid anytime in the last 5 years and then actually carried through with that threat?

Mr. ARONSON. What has happened, I think, is that there has been an implicit threat which is well known that if certain things are not done, that can affect military aid.

Senator LEAHY. Such as? Such as what kind of things?

Mr. ARONSON. Clearly, the Congress——

Senator D'AMATO. Mr. Chairman, at this point would you yield? I would like to pursue that for a moment.

Bernie, let me ask you something. Let us get it out on the table. Have you at any point in time or are you aware as Senator Leahy has indicated at any time that the United States threatened to end aid to Cristiani?

I would think it has been done. Are you aware of it? I am not saying you have done it personally.

Have you said, look, you are getting no aid unless you get to the bottom of this thing and track down these killers and bring them to justice because the Congress is going to cut you off? Has that been done?

Mr. ARONSON. Of course. That is said all the time.

Senator D'AMATO. You know that that has been done?

Mr. ARONSON. It was done a few days ago when President Cristiani was here.

Senator D'AMATO. I would hope that was the case.

Senator LEAHY. Why would he take it seriously?

Mr. ARONSON. Senator, I would like to be able to finish an answer once in a while.

Senator LEAHY. If you would answer the questions, we would let you. Go to the question.

Mr. ARONSON. I would note that the resolution which in fact made it clear that progress in this case was instrumental in the termination of aid was supported by the administration. It passed 99 to 0 in the Senate. It passed with almost the same numbers in

the House. We had conversations with the authors, and we made it clear we supported the language.

Senator LEAHY. It would have had more teeth if we had said if you do not do it we will cut you out of the Book of the Month Club, too. It did not do a darn thing. It is the old view with alarm and point with concern, or vice-versa.

The fact is, Mr. Secretary, there really has not been at any time, certainly in the last 5 years that I am aware of, where we have said people will be brought to trial or aid gets cut off. That has never been followed through. We have talked about it a lot, but nobody has followed through.

Everything that I hear from the people down there, within and without the military, is that they hear us talk about this and nobody, absolutely nobody, in El Salvador takes the United States seriously. They do not believe we will do anything because there have been so many killings, so many statements of outrage by both Republicans and Democrats in Congress, but nothing happens. The check is still in the mail.

Mr. ARONSON. Senator, let me say a few things in response to that.

First of all, if we were not as committed as you to send that message, we would not have in the first 3 weeks of this administration gone to the Salvadoran government and military before Cristiani was president and confronted them with a massacre.

I guarantee you that I will go back to my office and I will find not a single letter from you or anybody else in this body saying investigate the San Sebastian massacre. It did not even happen while we were in office. It happened in September 1988. There was no demand that we do this. In fact, it put Salvadoran aid at risk because if the government and military had not responded, that would have been one more example of a failure, and you and others would have so cited it.

We took that action recognizing that because we happened to share your same sense of outrage and zeal to do something. We went to them before there was any pressure. There were no resolutions, whether you think them toothless or not, and we told them to investigate a political killing in which it was absolutely clear the military was involved. There was no doubt about who the perpetrators were. It was done by a military patrol, and there had been a coverup. We said to them this is unacceptable if you want continued support from the United States.

Senator LEAHY. Did anybody get prosecuted?

Mr. ARONSON. Yes, in fact. There is a major, two lieutenants, and nine enlisted men in jail right now. All of them have been mustered out of the army without pay, and they are awaiting trial. In fact, I was told that if that final offensive had not hit they probably would have gone on trial approximately November 11.

The point is you are right to say that the pressure needs to be placed on them, and they have to take it seriously. I agree with that, too. It is a delicate balance. The other side of the coin that you have to weigh is what is the string to which you are referring going to do in terms of reducing political violence from the FMLN. I hope you also take that as seriously as we need to take the con-

cern about preventing political violence on the right seriously. It is a tough needle to thread.

Senator LEAHY. I will follow up further. Senator D'Amato's turn is next, but he has been kind enough to allow Senator Harkin to go next.

I understand you are supposed to be at another hearing.

Senator HARKIN. I appreciate that very much. Thank you very much, Senator, and I thank you, also, Senator DeConcini.

MEETING OF EL SALVADOR HIGH COMMAND

Mr. Aronson, very quickly, according to various reports there was a meeting of some 30 Salvadoran officers that took place in the evening of November 15 just a few hours before the murders of the six Jesuit priests, their housekeeper, and daughter.

What do you know about that meeting?

Mr. ARONSON. There were meetings at the high command and other army facilities throughout the offensive regularly to plan operations to respond to problems. As I understand it, that was one of those meetings. It was not a special meeting. It was one of dozens of meetings that took place in the middle of a war situation.

Senator HARKIN. I do not know how reliable it is, but again, according to news reports, a number of important issues were discussed at this meeting. We know there were at least 30 officers present at this meeting and that present at the meeting were Army Chief of Staff Ponce, former Air Force Chief General Bustillo, the head of Salvadoran intelligence and the commanders responsible for the security zones around San Salvador. Colonel Benevides also attended that meeting.

Are you aware of that? Do you know about these people being at this particular meeting?

Mr. ARONSON. I have never seen a roster. As I have said to you, Senator, there were literally dozens of such meetings.

Senator HARKIN. No; I am talking about this meeting. Bernie, you know what meeting I am talking about.

Mr. ARONSON. I answered your question, Senator. I have never seen a roster of who was at the meeting. You just told me, and I will take your information. You said it was not reliable.

Senator HARKIN. You have not looked into the substance of this meeting at all? Do you know if any of our intelligence services have looked into that, the FBI or anybody, if they have looked into who was at that meeting?

Mr. ARONSON. I think it is being looked into, yes.

What is it that you think needs to be addressed?

Senator HARKIN. Let me get to that. We know that after the meeting ended at about 10:30 p.m., President Cristiani was awakened and asked to sign an order authorizing use of air force artillery, which he did.

We also know that according to the testimony of the three lieutenants implicated in the murder, by 11:30 p.m., again just about an hour or so after the meeting ended, Colonel Benevides left the meeting, returned to his command center and, according to the lieutenants, gave the order to go out and kill the priests and leave no evidence.

The murders took place about 1:30 a.m., about 3 hours after Benevides left the meeting.

Has the special investigative unit or the Embassy questioned any of those officers that attended this meeting?

Mr. ARONSON. I think they probably have, yes.

Senator HARKIN. Could you find out for me?

Mr. ARONSON. Yes; they have questioned the people at that meeting.

Senator HARKIN. At that meeting?

Mr. ARONSON. Yes.

POLYGRAPHS OF PEOPLE INVOLVED IN JESUIT CASE

Senator HARKIN. I understand that Colonel Buckland——

Mr. ARONSON. He is a major.

Senator HARKIN. I am sorry, Major Buckland. I just promoted him.

Mr. ARONSON. That was very kind.

Senator HARKIN. He probably needs to be promoted.

I understand that the officers arrested in the case, Major Buckland as well as the one witness, Mrs. Lucia Cerna, have been polygraphed.

Has any effort been made to polygraph any of the officers who attended that meeting?

Mr. ARONSON. I know that there were polygraphs done on literally dozens of army——

Senator HARKIN. I asked specifically, were any of these officers who attended this meeting polygraphed?

Mr. ARONSON. I do not know.

Senator HARKIN. Could you find out?

Mr. ARONSON. Sure.

Senator HARKIN. Could you respond and let us know?

Mr. ARONSON. Sure.

Senator HARKIN. I especially want to know if Ponce or Bustillo, either one of those two, were polygraphed.

[The information follows:]

Neither Colonel Ponce nor General Bustillo have been polygraphed.

Mr. ARONSON. I would just let you know that General Bustillo was just retired out of the air force, if you are aware of that.

Senator HARKIN. That is what I just said. I just said former Air Force chief general, yes.

But he was at the meeting?

Mr. ARONSON. Yes; I take your word for it. I do not know.

Senator HARKIN. I do not know. I am just telling you what I have heard. I am not going to swear by any of this stuff. These are the reports that we have received.

I do want to know about who has been polygraphed.

Now I met with President Cristiani last week, and I mentioned the polygraphs. He mentioned some people that had been polygraphed that I was unaware of.

Mr. ARONSON. Yes; this report gives a pretty good detail on the polygraphs. I am not sure it mentions every individual, but we will try to find out.

Senator HARKIN. I would like to know if any of these, especially the high command officers who were at that meeting.

Mr. ARONSON. Senator, I understand what your larger point is, which is you and we want to know if anyone else was involved. That is the right question, and it needs to be answered.

I would also note that 5 weeks ago the question was would they ever charge a high officer in the Salvadoran Army with this crime, and the conventional wisdom from many of the speeches was that it will never happen. They have done that. They have charged somebody who now is the highest ranking officer since there is nobody above colonel.

Now the next question and a legitimate question is did they get everybody, or was anybody else involved. That needs to be pursued. I agree with you, it needs to be looked at.

PROSECUTION OF OFFICERS CHARGED IN JESUIT CASE

Senator LEAHY. To be more precise, the question asked by a number of Senators is: Would they ever successfully prosecute anybody. Not, were they charged. It is easy to charge. I used to be a prosecutor. The easiest thing is to bring the charge. To prosecute is a tougher thing that shows a commitment.

Mr. ARONSON. That is true, and that is part of the responsibility in this case as well. I agree with that.

Senator HARKIN. Can you categorically state on the record before this committee that an order was not given at the November 15 meeting to assassinate the Jesuit priests?

Mr. ARONSON. There is no way you can prove a negative, Senator.

Senator HARKIN. Can you categorically state that an order was not given at that meeting?

Mr. ARONSON. Since I do not know what went on at the meeting, obviously I cannot. I cannot categorically state that an order was not given in any of the meetings that took place.

Senator HARKIN. So can you categorically state that those who attended the meeting did not have a direct order to go out and kill the Jesuits, and you said no, you cannot categorically deny that.

What I am getting at is, since you cannot categorically say that an order was not given, that this meeting must be investigated and the people who attended that meeting must be investigated and they must be given the same kind of polygraph test that Mrs. Cerna was given.

Mr. ARONSON. Senator, I hope that those rules of due process never become applicable in the United States, that if you cannot prove you did not do something you are a suspect, but I also agree that I will look into this particular case and if there is a legitimate reason to polygraph everybody at that meeting, fine, but not based on not being able to prove a negative.

Senator HARKIN. That is not what I am asking you. I am not asking you to prove a negative. What I am saying is, since you cannot categorically deny such an order was given, and since the circumstantial evidence on which prosecutors tend to build up charges all indicate that this meeting was held with 30 of the highest-ranking officers, shortly after that Colonel Benavides gave

this order and 3 hours later soldiers under his command killed the six Jesuits.

I might also add other recent revelations, that early the next morning, before any news of this had really gotten out, according to the Washington Post article the other day, that in the intelligence unit in San Salvador, a lieutenant got up and announced that the priests had been killed and there was cheering and clapping in that intelligence unit. Early in the morning, before the news had really gotten out.

All of this circumstantial evidence points at that meeting that was held, that something was discussed there and decisions were reached, and since you cannot categorically deny that an order was not given, then it would seem to me that you would investigate that meeting and get all of the officers that were at that meeting and subject them to the same kind of polygraph test you gave poor Mrs. Cerna or Major Buckland.

Maybe no order was given, but it seems to me that the circumstantial evidence points that at that meeting discussions were held and orders were given.

Mr. ARONSON. Senator, you have not cited a shred of circumstantial evidence as far as I can tell, but I still think your basic point is correct, which is the investigation should not end and any leads, leading to anybody in El Salvador, including the military, need to be followed up on vigorously.

Senator HARKIN. I hope so, especially the people that attended that meeting, and I hope again for the record you can let us know who was at that meeting, has the special investigative unit found out who was at that meeting and if not, why not, and have those officers who attended that meeting been given the same kind of interrogations and questions and polygraphs as Mrs. Cerna, or Major Buckland, or the other people that have been polygraphed?

Mr. ARONSON. The only thing I would add is that just as when we were conducting the military operation in Panama we had constant regular meetings of our military, so did they.

The fact that a meeting—I am not exactly sure which meeting you are referring to—happened means absolutely nothing, and the fact that the high command was there when they were trying to defend the capital city of their country against 3,500 guerrillas, that the high command assembled to talk to each other, strikes me as merely what happens when you are in a combat situation.

[The information follows:]

FMLN OFFENSIVE

During the FMLN offensive the military high command met on a continuous basis. As was the case throughout the offensive, we believe that key members of the high command were present at the high command on November 15 and could have attended such a meeting. However, based on statements made by some participants, we believe the following individuals were at this meeting: Chief of Staff Col. Rene Emilio Ponce, Vice Minister of Defense Col. Juan Orlando Zepeda, then Director of the Treasury Police Col. Hector Heriberto Hernandez, then Director of the Military Academy Col. Guillermo Alfredo Benavides, and Armed Forces Press Committee spokesman Maj. Mauricio Chavez Caceres. In addition, it is likely that the Minister of Defense, the Vice Minister of Defense for Public Security, the Directors of the National Police and National Guard, and others were at the meeting, although we cannot confirm this.

The only attendee at this meeting to have been polygraphed is Col. Hernandez, who was ordered to take the test in connection with charges made in a letter allegedly written by young military officers that he was the intellectual author of the killings. The results of Col. Hernandez' polygraph supported his claims of innocence. The polygraph was conducted by the Special Investigative Unit (SIU) and subject to quality control by the FBI.

In addition, Col. Ponce on January 4 gave a sworn deposition to the San Salvador fourth criminal court which included the disposition of military forces around the Central American University the night of the murders.

The SIU had not investigated this meeting earlier because nothing in Col. Hernandez' polygraph results nor in Col. Ponce's statement indicated that the killings were discussed or ordered at a November 15 meeting. However, in response to the growing perception that a meeting on November 15 may have some bearing on the crime, SIU Director Ltc. Rivas sent a letter to Col. Ponce earlier this month asking that those who attended this meeting be made available for questioning by the SIU.

SPECIAL INVESTIGATIVE UNIT

Senator HARKIN. That is why the special investigative unit questioning all these people about what kind of orders were given there might be productive.

I am sorry, I thank the Senator from New York. I really appreciate that very much.

Senator LEAHY. The Senator from New York has been most patient. I thank him.

STATEMENTS AGAINST FMLN ATTACKS

Just a reference, Mr. Aronson. You said nobody speaks out against the FMLN. I will put in the record an excerpt from the Congressional Record which includes the text of a cable to the FMLN, in which I say:

I wish to express in the strongest terms I am concerned about your decision to withdraw from peace negotiations with the Salvadoran government to launch a military offensive in San Salvador.

A full scale military attack in the heart of the capital, with a predictable loss of innocent civilian lives, after just two meetings with government negotiators, raises serious questions about the sincerity of the FMLN's claim that it seeks a political settlement of the war.

And so on.

I also said:

What do we see—brutality, murder, and atrocities on both sides. The right justifies it in the name of the Lord, the left justifies it in the name of liberation. The people die in the middle.

Please do not suggest that nobody cares about the FMLN.

[The information follows:]

[From the Congressional Record, Nov. 16, 1989]

THE WAR IN EL SALVADOR

Mr. LEAHY. Mr. President, I have been following all day the reports from El Salvador. Knowing the news media which, has many times been way ahead of our official Government reporting, I have watched what has happened with a great deal of concern.

If you watch some of the network reaction tonight, NBC, CNN, and others, no person can help but be deeply concerned about what they see. If they listened to the powerful speech of the senior Senator from Massachusetts, Mr. Kennedy, how can they help but be moved by what is happening down there.

Mr. President, by the rules of Senate seniority, I am the chairman of the Foreign Operations Subcommittee. This is the committee which provides foreign aid. Last night we had a debate on this floor and a proposal was actually made to allow the

President to send all of our foreign military assistance to El Salvador, that amendment would have given them anything they want, with no strings attached.

Mr. President, I recall some of the debate in the earlier part of that foreign operations bill when there was a discussion on the Senate floor that, of course, today we have to go on sending more money to El Salvador but naturally if anything goes wrong down there we will all step up here and say, no, no, no, no.

Mr. President, El Salvador is a tiny country. Geographically it is smaller than my own State of Vermont with just 5 million people. We spend $1.5 million a day in foreign aid down there, and look at what is happening.

Mr. President, today I sent these telegrams, one to the President of El Salvador, who I spoke with just last week about the foreign aid levels for that country. To His Excellency, President Aflredo Cristiani, I wrote:

Mr. President: I learned with shock and horror of the savage torture and murder of the Reverend Ignacio Ellacuria, Rector of the Central American University, four other Jesuit priests and two servants in San Salvador last night. From information available to me, Reverend Ellacuria and the others were killed by a group of heavily armed men around 2 or 3 a.m. last night in Reverend Ellacuria's residence. I further understand this area was controlled by the Salvadoran Army.

Just a few days ago, you called to tell me that you were forming a commission to investigate the bombing of the FENESTRAS headquarters in which ten persons were killed. One of those you named to this commission was Reverend Ellacuria. I hoped for a genuine investigation to find and punish those who committed that crime.

Now, even before the investigating commission can get started seriously to work, this new brutality occurs.

Mr. President, these human rights outrages are intolerable. The United States Congress just voted to provide El Salvador with yet more millions in economic and military aid. The American people cannot and will not continue to provide aid when the Salvadoran authorities are apparently powerless to compel obedience to the norms of law and decent human behavior, even in the midst of a violent insurgency.

I am also appalled by the aerial bombing, rocketing and strafing of heavily populated areas of San Salvador by Salvadoran forces combatting the FMLN. While I understand your desire to retake occupied areas quickly, this must be balanced against the alarming number of civilian casualties caused by the indiscriminate use of force.

I appeal to you in the strongest terms, Mr. President, to seek a truce or ceasefire with FMLN combatants in the urban areas of San Salvador in order to allow for the evacuation of wounded and of civilians.

I signed it as chairman of the Foreign Operations Subcommittee.

I sent similar concerns to our Ambassador, William Walker. I tried to call him today, but most of the lines are down and I was unable to get through.

I also sent a message to the General Command of the FMLN. I wrote them:

I wish to express in the strongest terms my deep concern about your decision to withdraw from peace negotiations with the Salvadoran Government and to launch a military offensive in San Salvador. This full-scale military attack in the heart of the capital with the predictable loss of innocent civilian lives after just two meetings with government negotiators, raises serious questions about the sincerity of the FMLN's claim that it seeks a political settlement of the war. This latest offensive follows weeks of escalating violence, including targetting civilians, by both sides. I am calling on you to seek an immediate ceasefire or truce with the Salvadoran Government, at least in the urban areas of San Salvador, in order to allow for the evacuation of wounded and of civilians. Furthermore, I appeal to you to agree immediately to dialogue and negotiations without preconditions with the government for the purpose of reaching a permanent ceasefire.

Mr. President, in many ways I almost feel like saying "a pox on both of your houses," on the Government of El Salvador and on the FMLN. The United States sends $1.5 million a day in aid to El Salvador. We spend more United States tax dollars in El Salvador than—practically any other country.

What do we see? Brutality, murder, and atrocities, on both sides. The right justifies it in the name of the Lord and the left justifies it in the name liberation; and the people die in the middle.

I recall so well the first time I went to El Salvador. I recall going to a camp for refugees. I remember talking to a woman. She appeared to be middle aged. It turned out that she was in her twenties. She told me her husband had been killed; many of her family and children had been killed. She was with the remaining children in that refugee camp.

I asked her who killed her family; the people on the right or on the left. She said she did not know. I asked her if she had tried to find out. I am summarizing a long conversation, Mr. President. My brother-in-law did the translating.

She said she did not know. "You do not ask those questions." I asked her whose side she was on. She told us she did not get involved in politics. She just wanted to live.

You know, Mr. President, for years this country has focused on Central America. It is in our hemisphere. We are continually reminded how close those countries are. They are closer to Washington than San Diego, and on and on, as though somehow geography determines what is right and what is wrong.

You wonder, Mr. President, about decisions that have been made, to pay ransom to the Iranians and send secret money to the Contras. Decisions to lie to the Congress, to the American people, and sometimes to ourselves.

Mr. President, you and I, and Senator Simon, who is here, and the distinguished majority and minority leaders, who are on the floor, listened yesterday to a discussion of freedom by Lech Walesa.

Ironically, Mr. President, during the past 10 years, we have probably spent more time worrying about a few little countries in Central America than we have about Eastern Europe and what is happening there, where freedom has broken out almost under our noses, behind our backs, and without us doing anything about it, because it is human nature to want freedom.

Mr. President, I have to ask—and I say this as a human being, as a parent, as an American, as a Catholic, when I see the dead bodies of Jesuit priests and innocent children—are we doing anything right?

The present occupant of the chair—this is perhaps unfair because the Presiding Officer cannot respond, but let me say that I hold nobody in this body in higher esteem. He is a close, personal friend. I have enormous respect for him. In fact, I think in my 15 years here in the Senate, on the very short list of the finest people that serve in the Senate, the occupant of the chair would be on that list. He speaks Spanish, and he goes down to Central America often.

I have followed his advice and I hope he, too—I know he will, in hearings he will hold tomorrow, and at other times—will look for an answer to my question.

But, Mr. President, if we are going to be so involved there, do we not have a moral responsibility, too? Let us ask ourselves, what are we doing wrong? If we are unable to control what is happening there, then let us say we cannot continue. If our aid means nothing, if our influence means nothing, if all our money down there cannot stop what is happening, Mr. President, then we will have to say that we cannot do it, that what is happening does not reflect America. We will leave.

Mr. President, I yield the floor.

SAN SEBASTIAN MASSACRE

Mr. ARONSON. I never gave that suggestion.

In fact, if you had been listening, I gave tribute to you for saying, in your opening statement, for criticizing the FMLN, and the record will show that.

What I said, just so you know, because there is obviously a misunderstanding, what I said is, nobody raised the San Sebastian massacre when we were trying to get to the bottom of it. In my opening statement I gave you credit for criticizing the FLMN, and the transcript of this hearing will show that and I am sorry you did not hear me.

Senator LEAHY. The record is clear, and I will put these in the record.

Senator D'Amato, the floor is yours for as long as you need.

PRESIDENT CRISTIANI AND U.S. AID

Senator D'AMATO. Mr. Secretary, I do not want to stay too long on this, but I think it is important. I want to know, in your opinion, in your conversations and the conversations and the communications that you and others in the State Department and the administration have had with President Cristiani, is it your opinion

that he understands that indeed aid, and future aid, very well may be conditioned upon there being a successful pursuit of those who have brought about the killing, or are responsible for the killing of the Jesuits?

Mr. ARONSON. I have no doubt that he understands that, but I think that it is important, as many members of the committee have said, that he understand that this has to be a continuing commitment, not just when a case is in the news, and when he was here with his minister of defense and his——

Senator D'AMATO. And that we are equally concerned by all abuses of human rights by death squads and if there are those kinds of transgressions that we want them pursued, and if the death squads are attached to the government or the army that indeed that would jeopardize continued aid?

Mr. ARONSON. I suspect if you asked the Salvadoran Government what is the most persistent issue that the United States Embassy raises with them, they will tell you it is human rights.

INVESTIGATIVE UNITS IN EL SALVADOR

Senator D'AMATO. Let me ask you about investigative units. Do we have various investigative units assisting the Salvadorans, and are we conducting any investigations there?

Mr. ARONSON. We have a team at the Embassy that includes a full-time political officer, a legal officer, a deputy legal officer, a labor officer, and members of the MIL group, all of whom investigate human rights cases and try to bring them to the attention of the government.

In the Jesuits case, we provided extensive FBI laboratory and forensic assistance. We also dispatched a DEA agent who had grown up in El Salvador and had served there and knew who was who, and he spent about 50 days working on this case full time at the direction of the Ambassador.

Senator D'AMATO. If I wanted a briefing on this in the Intelligence Committee, would I be able to find out, for example—well, let me withdraw that.

I do not mean for you to give us anything that should not be said publicly, but it would seem to me that we have enough of an interest and enough of an investment in this area, and have worked hard enough in this area, that we certainly would have some kind of special investigative unit to ascertain for our own purposes, indeed what took place, who was responsible, and that we would be aiding and assisting, in addition to our finding out on our own, the Salvadoran government. Is that a fair assumption?

Mr. ARONSON. Senator, we, through the Administration of Justice Program, have spent the last few years——

Senator D'AMATO. Bernie, if you can answer it with a yes, tell me yes. If not, tell me no.

Mr. ARONSON. Senator, I wish all questions in life could be answered yes or no, but they cannot.

There is a special investigative unit that we have helped equip and train that broke this case, that broke the San Sebastian case, it also broke the Archbishop Romero case.

Senator D'AMATO. Do we have a special unit that has been assisting the Salvadoran Government?

Mr. ARONSON. It is not a United States Government body, it is a Salvadoran Government body which we have helped train, equip, and assist. We do not have an entire investigative apparatus in a sovereign country that operates independently.

However, we try, through the Embassy and our own means, to investigate human rights cases, and oftentimes it is the Embassy that first finds out information and then brings it to the attention of the government. We do not have our own 40-person investigative unit attached to the Embassy.

Senator D'AMATO. We do though, as it relates to this particular case, and have assigned various personnel to assist and also to gather for our own sources. Is that not true?

Mr. ARONSON. Yes.

Senator D'AMATO. Is that continuing?

Mr. ARONSON. I think the FBI is still involved. I think the DEA agent who was transferred there has been transferred back.

CLASSIFIED BRIEFING REQUESTED

Senator D'AMATO. At some point, I have to tell you, I am going to ask to meet and to have a closed session briefing as to exactly what is taking place and what is going on and what we have found out.

Senator DECONCINI. If the Senator would yield on that, I have had that, and it was in El Salvador. They gave it to us and it was classified, and I found it to be very helpful. It certainly did not explain enough for me, but it certainly was helpful. I suspect they can do that here.

Senator D'AMATO. I think, Mr. Chairman, that might be——

Senator DECONCINI. People from the Embassy have maps and they can give you their perspective, at least, about some of these meetings.

PANAMA'S BANKING PROBLEMS

Senator D'AMATO. Let me switch to another area, if I might. Tuesday's New York Times ran a front-page article entitled "Panama is Resisting U.S. Pressure to Alter Inadequate Bank Laws."

The president of the Panamanian Bankers Association is quoted as saying the Panamanian bankers do not think there is a money-laundering problem in Panama.

Well, of course, that is true, with most of the banks being closed down there is no money-laundering problem now, but obviously there was one that existed prior.

Let me ask you, would you comment on concerns expressed in that same article that a senior State Department official said that Panama's existing laws are "grossly inadequate to prevent money laundering and the United States is strongly urging Panama to revise them"? What is the story on that?

Mr. ARONSON. I think one-half of that is true. As you and I spoke about before the hearing, they actually have a pretty tough statute on the books that empowers the government to go into bank

records and investigate money-laundering. The question is, is there a will to enforce it?

This set of democratically elected leaders have told us they are committed to enforce it, but we have also talked to them and we have the Comptroller of the Currency Office and the Federal Reserve in Panama discussing with them and Justice Department DEA people strengthening the apparatus that we can use to attack money laundering.

I think what we would hope to do would be to negotiate a mutual legal assistance treaty with Panama. We recently negotiated one with Mexico, as you know, and it was ratified. That would incorporate all of those provisions and strengthen it and give us and them the best tools to attack this problem.

Senator D'AMATO. Have we told them that it is absolutely imperative that we enter into that kind of an agreement dealing with money laundering cases?

Mr. ARONSON. They understand that——

Senator D'AMATO. You see, I have talked to President Endara. I talked to the two vice presidents. I told them that I thought it was important. I do not know if that message is getting through to the business community.

It just seems to me that at a time when they need our aid—I think they are entitled to it—we had better lay it on the line.

Mr. ARONSON. I think that is probably good advice. I would just note that the first trip I took to Panama—when our chargé was still wearing a flak jacket—with Larry Eagleburger and Deputy Secretary of the Treasury Robson, we had a meeting with the business community, and Secretary Eagleburger laid this issue on the table.

The president of the Panamanian Bank Association was there, and he made it clear that money laundering and opening up bank secrecy consistent with attacking money laundering was a fundamental priority for us.

And I think you are right. We need to keep pressing that.

You know, a banking community in any country is going to always want to say less regulation and more secrecy, and they will justify it in business interests. Some of that is legitimate, but there is a burden in Panama because this country was a, as I said the other day before the House, a cesspool of money laundering, and it has to be cleaned up. And they want to do it, but we want to do it as well, and I think your advice is well taken.

Senator D'AMATO. In that same article DEA and Justice Department officials are quoted as saying: "Business connections and friendships make it difficult to believe that any real crackdown against money laundering is likely."

Now, if that is the attitude of our DEA people and our Justice Department people—and I met and spoke to the DEA people down there just 10 days ago and they are a good group and they know and the task force has been assembled and brought in there—I think we had better recognize that there is some very real resistance by the banking community for getting in line.

And I think we have got to let them know now that that is a condition precedent. I do not mean to bring out the old law school joke, but that is going to be paramount if they expect the kind of

aid they are looking for, particularly as it relates to getting their banking system started up again. I would hope you would be vigilant in that area.

Mr. ARONSON. I will. In fact, I mentioned in my opening statement and I would say at least this first test when they were going to reopen the banks, Endara and Arias Calderon and Ford came to us and said we do not simply want to unfreeze accounts that you think may have dirty money in it. They have frozen 300 accounts that we have designated, and I think that is a pretty good sign of their commitment.

But you are right, and the pressure needs to stay on, and we hear the message.

THE NEW PANAMANIAN LEADERSHIP

Senator D'AMATO. Mr. Chairman, I think it is also worthy of note because there have been a number of newspaper articles and some statements made, and these things get carried in the press which are absolutely terribly scandalous, attacking the leadership.

President Endara and his two vice presidents, it is implied, are not for strong money laundering laws. I think one account said Endara may have had an interest in one of the Colombian money laundering banks.

I know of no such interest. I do not think he owned any. I do not think he was an officer. He was a private attorney. These men, Billy Ford, Arias Calderone, and President Endara, are, as Mr. Aronson has indicated decent, honorable men. I just think that linking Panama's leadership with money laundering is a terrible implication that some of the media have carried and have run with. That somehow Endara, Calderone, and Ford might just be looking to continue business as usual.

There are members in the banking association who would like to do that, but I think that tarring the leadership is a scurrilous kind of thing, and I think we ought to rebut that.

CLASSIFIED BRIEFING REQUEST

Senator LEAHY. I should note for the Senator from New York that regarding the Panamanian banks and certain other issues he raised about El Salvador, if the members want at some point to have a closed door intelligence briefing on these issues, Senator Kasten and I could set that up. We would have to discuss privately the type of issues we want to be briefed on.

I found, in my preparation for my trip down to Panama and El Salvador over the weekend, intelligence and other administration agencies were very forthcoming in those kinds of briefings. I do not want to put Secretary Aronson on the spot by asking some of those questions here and getting into those kind of issues. Despite my differences on policy, I believe the administration has been absolutely forthcoming in the kind of briefings that they have provided. You are getting one of the compliments now, Mr. Aronson, so make note of that.

Senator D'AMATO. I thank the chairman.

Thank you, Mr. Aronson.

Senator LEAHY. I think Senator DeConcini is next, but the ranking member is here. I think you had a statement you wanted to make.

Senator KASTEN. I will be happy to yield. I am going to combine my opening statement with a question.

Senator DECONCINI. Thank you.

INDEPENDENT INVESTIGATIONS OF THE JESUIT CASE

Mr. Secretary, when I visited El Salvador, I was encouraged, quite frankly, by Mr. Cristiani's determination to resolve the case of the Jesuits and by the fact that there have been some arrests. I do not know if the arrests include everybody or not, but I am encouraged for a change.

At the meeting Senator Graham and I had with the President and with Colonel Ponce, we raised the possibility of having outside investigators participate.

At that time Spain had sent two inspectors who spent a week there and gave kind of a stamp of approval. He said that Prime Minister Thatcher had agreed to send some people there and yet had not ever heard from them. I encouraged him to have someone do a side-by-side investigation. He indicated that he was prepared to do that.

Do you know if any of that is happening and are there any foreign investigators down there participating either independently or with the investigation by the judge?

Mr. ARONSON. Senator, as you mentioned, the Spanish Government and our own Government have sent down investigators, not really to conduct a totally separate investigation because they do not have the means to do that, but both to offer technical assistance and to scrutinize the investigation that was being carried out.

And I think you are correct that the Spanish Government which had a particular interest in it, because Father Ellacuria and a number of the other Jesuits were Spanish nationals originally, felt that the investigation had gone pretty well up to that point.

I think we still have an FBI involvement there and continue to scrutinize the investigation.

Senator DECONCINI. That is my understanding, that we are doing forensic work, but that is about the extent of our actual involvement.

Mr. ARONSON. Actually, Senator, we have done much more than that.

As I mentioned earlier, we dispatched a high ranking DEA agent who had spent 4 or 5 years in El Salvador.

Senator DECONCINI. I mean, that is all I understand is going on. And if there is more going on, I would certainly welcome knowing that.

My concern is that the United States investigative personnel are suspect, not because they would not do a good job and could not do a good job, but in the reality of the political climate here they are suspect.

Has the administration sought or would you consider seeking some other country to go there and do an investigation side by side like Italy or France or Great Britain or somebody? Would that not

be important to us to be able to come to a conclusion that whatever is investigated, that whatever indictments are brought forth, they have been exhaustive and have been extensive? Have you thought about that, Mr. Secretary?

Mr. ARONSON. We would certainly welcome that, and we supported the request of the Salvadoran Government to the United Kingdom and to the Spanish Government.

Obviously they would have to make the decision who they would invite in. They did invite in those three governments.

Senator DECONCINI. Yes; they have invited the United Kingdom.

But, when you say we supported it, has anybody from this administration called Prime Minister Thatcher? Has anybody gone over there and said yes, would you please do that?

Mr. ARONSON. Yes; at the diplomatic level.

Senator DECONCINI. What is happening?

Mr. ARONSON. The Spanish did respond and they have had people there in an oversight capacity.

Senator DECONCINI. For 1 week?

Mr. ARONSON. I am not sure.

Senator DECONCINI. Maybe they have come back. They were there 1 week when I was there and then left.

Mr. ARONSON. I do not know how long the Spanish spent there.

Senator LEAHY. One day we were told.

Mr. ARONSON. We obviously have no control over——

Senator DECONCINI. That is not the point, Mr. Secretary. I am not saying you control them. My point is maybe you do not think it is a good idea. If you do not, fine, I disagree. But my point is—and I do not want you to say it is a good idea to make me feel good.

My point is trying to find some resolution that might have some international and domestic credibility when this thing is brought to a final conclusion.

I am concerned that the Salvadoran Government may do an excellent job. Cristiani may be committed, he may indict and prosecute and put in jail a number of military leaders, but doubts will remain. There is going to be the constant rumor of a meeting that was not observed or investigated. There are going to be rumors out there or the informant who was not investigated.

And my point is why do we put our effort here, especially when President Cristiani has told this Senator and Senator Graham that he would welcome having somebody independent who can make their own judgments as the investigation progresses.

Now, maybe you do not want to get into it. Maybe our Government does not feel like we can infringe on Cristiani. But I really think this is serious enough that if the results are questionable when the investigation is finished, you are going to see a number of Senators—and I may be one of them—not support continued aid to El Salvador.

I do not want to have to come to that conclusion. And so for Dennis DeConcini, just myself, it would be extremely important if Scotland Yard, even if we had to help pay for it, sent over a team of experts that stayed there for the duration and did a shadow investigation and came to an independent conclusion.

I offer that to you in the spirit of trying to salvage what I think is a very precarious situation for the Cristiani government and one that I do not want to see fail.

Is there any chance that will be considered?

Mr. ARONSON. It will now.

Senator DECONCINI. Thank you.

CONDITIONING U.S. AID TO HUMAN RIGHTS

I also do want to say that I feel real torn with the developments in human rights down there. I understand the chairman's total frustration. On and off we make these threats, but there have been some positive developments.

Vice President Bush went down there right before Duarte was duly elected, and presented a list. I happened to have seen that list a few weeks later when I was down there. I think there were between 11 and 13 people on the list. He presented it to Magana. Was that the name of the president then?

All but one of those people were indicted or prosecuted and brought to justice. I think they understand the severity of it. And I hope that we are prepared to do that again.

We have some information, to which I am sure you are privy, of rumors perhaps, or informants that may not be totally valid. It seems to me we should turn that over, if we have not, to the Salvadoran judge, and to the Cristiani government, and say that we expect that they will pursue this and give us the results of their findings.

Are we involved in doing that, or do you know?

Mr. ARONSON. I do know, and we are. But I think it is good to be reminded of President Bush's success in that matter, because I think that is partly what the chairman is urging us to do—to be vigorous in that regard.

Sometimes we do that in a slightly less high-profile way, but I guarantee you that part of our task is to try to determine to the best of our ability who in the government, and particularly in the security forces, is respecting human rights and who is not, or who is corrupt and who is not. And we make that known very vigorously to the government. And we try to urge that some changes are made.

Sometimes we succeed. And I think those who follow El Salvador closely, and see who has been appointed in certain important positions in the army, know that there have been some changes there.

But, frankly, we are not satisfied and we think that that is an obligation of the Cristiani government, and they need to do a better job of that.

Senator DECONCINI. The quandary that I find myself in, Mr. Secretary, and I think others do, is that nobody condones the guerrillas' efforts. You complimented Senator Leahy for taking a strong position against them. But it is getting to the point that if we walk away and terminate our assistance, do we turn the country over to the far right wing? That is always the argument I have used. That is why I have continued to support military and economic aid, because I do not want that to happen.

But quite frankly, I am afraid the time is running out. And that is just my observation and my opinion. If we do not have a credible investigation as to this particular incident, because of its significance, not to mention the hundreds of other people that have died under circumstances that ought to be investigated, it is not going to wash with the American people. But we have a case of the Jesuits that has to have some credibility.

Thank you, Mr. Chairman.

Mr. ARONSON. Senator, I agree with you about this investigation. And I think that they have an obligation to root out of the armed forces people who either tolerate this or commit it. And we take your point.

The only thing I would add, though, is one of the questions everyone has to ask themselves. If we are trying to promote negotiations, for instance, which we are trying to do now, and I think we have a critical opportunity with the involvement of the United Nations and the Secretary General and the five Central American presidents, are you more likely to bring the FMLN to the negotiating table, seriously, if they believe military aid is about to be suspended or not?

That is one important question.

Senator DECONCINI. It is a very good question.

It seems to me, for whatever it is worth, that the principle of human rights must be paramount even over the potential of getting the FMLN to the bargaining table.

Because if we do not stand on that and if we do not have a credible investigation that we can be relatively satisfied is extensive and far-reaching into the military and high command, then, even if you get them to the table, the results will not stand very long up here, in my opinion. Because it may get away from us here. I really believe that.

Mr. ARONSON. Senator, I think it would be helpful if you did have a chance to get a briefing on just how extensive this investigation was. And I think you are right that if there are any other leads, they need to be followed up.

But I would say that 6 weeks ago the head of one of the major human rights organizations in this country said to me privately, I do not believe they will ever charge anybody high up in the military for this crime. And, in fact, they moved quickly and they spared no effort to investigate. And the armed forces cooperated in that investigation.

Senator DECONCINI. They did.

Mr. ARONSON. They did ballistic tests. They did polygraph tests. They interrogated dozens and hundreds of soldiers. And, in fact, the focus was on the military from the beginning.

So I think you are right that we have to keep the heat on, but you also have to give them credit for what they have done so far.

Senator DECONCINI. And I do give Cristiani credit and Ponce for doing what they have done. My point is when it is over here, if it is only the Salvadoran Government's investigation, even the independent judge, I do not think it is going to be enough. And that is my point.

Mr. ARONSON. OK.

Senator DECONCINI. And I think it is important that we press, really press, that they do this. And Cristiani said he was willing to do it.

That is all I have to say. Thank you.

Senator LEAHY. Thank you.

Senator Kasten.

Senator KASTEN. Thank you, Mr. Chairman. First of all, I want to thank Secretary Aronson for his willingness to work through some of these important issues with us. I am sorry that I was not here earlier, but other committee assignments required attention.

EMERGENCY AID FOR PANAMA

I am pleased that Congress acted quickly on the emergency request for assistance to Panama yesterday, and that we were able to keep the package clean.

And I hope this indicates to you all in the State Department, and to the people in Panama, that when we do get our ideas together we can have an impact.

I think the action of the Hill over the last 72 hours is terrific. And I hope it indicates to you and to others that we are trying to help.

Mr. ARONSON. Senator, just so you know, in my opening statement I paid tribute to the Senate and the House for acting as quickly as they did.

Senator KASTEN. And in the manner we did it.

Mr. ARONSON. And we deeply appreciate it. Because it was an extremely important signal to send to Panama, and I know they appreciate it.

Senator KASTEN. I want to emphasize one element of that package; the money that is devoted to the Panamanian police force. I understand that some is for radios, and some is for uniforms, but overall it means that we can remove American troops.

But it also means that Panama and the Government are going to be in the business of governing, for lack of a better word. I think we want to get through this intermediary stage as quickly as possible—the transition stage, if you will.

So I hope that those particular dollars can be quickly and efficiently disbursed and used by the Panamanian police forces.

Mr. ARONSON. Amen to that. We agree.

CONSEQUENCES OF CONDITIONING AID TO EL SALVADOR

Senator KASTEN. With respect to El Salvador, I am concerned, as are we all, about the human rights questions both by the left and by the right.

There are a number of questions I think must be asked of all of us as we start to discuss cutting off or fencing aid.

You are an expert in the region. The question is, what kind of a reaction would we be likely to get from the government there if aid were fenced, if aid were cut off?

As the Washington Post pointed out recently, and I think an argument can be credibly made do you think that reducing aid could result in more violence?

One could argue that reducing aid would weaken Cristiani's somewhat fragile position within the coalition that he is part of on the right, and in the middle. You could argue that this would give different signals to the FMLN.

Do you feel that such fences or limitations on aid speed negotiations for peace? Would the FMLN react by resuming the negotiations that were going on a number of months ago, in Mexico, for example? Or would they be more likely to refuse to negotiate?

Would the action of fencing or limiting aid stop or increase violence in El Salvador?

Would cuts in aid or fences inhibit or promote democracy?

Mr. ARONSON. Thank you, Senator.

I think those are good questions and I will try to address them.

Nobody is arguing that we should give our aid to El Salvador as a blank check, no strings attached, no demands made upon the Salvadoran Government.

In fact, I think for the last 7 years there has been a bipartisan consensus that the aid should be used to promote the goals that you talked about, democratization, steady progress in human rights, and hopefully a negotiated settlement of the war.

And we have to keep the pressure on them, and you should keep the pressure on us. And implicit in all that is a kind of conditionality that has become institutionalized. The problem is, as you have pointed out, there is another force in this struggle, the FMLN.

Right now the FMLN is debating whether to heed the call of the five Central American presidents and the Secretary General of the United Nations to return to negotiations. My best judgments is that if they were confident that military aid would be suspended or cut off, they would more likely decide to hit the government again.

They are also debating whether to launch a new offensive.

And unfortunately nobody is debating whether to cut down on their aid as an inducement to negotiate.

And I think it also has to be understood that there is a constituency on the extreme antidemocratic right in El Salvador for cutting United States aid as well, and it is not widely known. But the killers on the right have a different view of this.

They argue that if you accept U.S. aid and human rights restrictions and try to prosecute the war the way we urge them to prosecute the war, you lose.

They say the United States lost in Vietnam. The United States abandoned the Contras, and that there is a better model for fighting communism. And the model they point to is the Guatemalan model, where in fact the United States did cut off aid in 1980. And what followed was not peace and was not the protection of human rights, but a steady, continuing orgy of killing.

And so you have to be careful when the killers on the right and the killers on the left both agree that cutting off U.S. aid is a good thing. But I also want to say, because I do not want to be disingenuous, that unless the Salvadoran Government and military believe that there is a real threat that aid could be cut off, they may not take us as seriously as they need to.

So it is a tough balance that we are going through. But you have to factor in the set of questions that you just raised before you take

the action that some of those on the other side of the committee are advocating.

WHAT CONSTITUTES A CREDIBLE INVESTIGATION?

Senator KASTEN. Let me just make one other comment. You hear the term "credible investigation." The Senator from Arizona was using it quite a bit. I think we need to have a credible investigation which, through the judicial process, will lead to some kind of an outcome. But I do not think we can define a credible investigation in terms of a conviction.

What amount of time do you believe the credible investigation and the judicial process will require?

What I am afraid of is that we could be arguing some of these issues on the floor of the House and the Senate within months, whereas a credible investigation and a judicial process, proceeding as the law prescribes, would place over several months rather than a few months. We would find ourselves in the position of saying they are doing everything they can, but we do not have a conviction.

Is there a way that we can measure a credible investigation and a judicial process which is proceeding in an expeditious way? Can you provide us with the measuring stick?

Mr. ARONSON. It is a good question. In Tegucigalpa recently we had breakfast with President Cristiani, and he was talking about this, and he was saying that he very much wants this phase of the process where they are gathering all the evidence to be done very carefully and to take the time necessary to make a good case precisely so when they go to prosecution they can hopefully convict.

If they are pushed to do this so quickly to prove their bona fides, they risk not putting together a credible enough case to make a conviction, and then they will pay at the other end.

And I cannot tell you what the exact timeframe is. It is a little bit like the Supreme Court's definition of obscenity. I cannot define it, but I know it when I see it, and I think if we scrutinize this process carefully—and I hope that the committee will—we will know whether it is going forward in an honest way, in a real way, or whether there is a coverup going on. And I hope that at least we will not put demands on the process such that we may, in fact, wind up ensuring that they cannot convict in the end.

It seems to me at this stage that they have conducted an extremely thorough and extremely professional investigation that has spared no one and that they have made very serious progress and the chairman said so in his opening statement.

They are in another phase now. They have to now move to prosecution and they have to also investigate other potential leads, and we have to scrutinize that as well. And I think we will know it. I think honest men and women will know whether they have met those standards as well.

Senator KASTEN. I am going to conclude. There are a couple of other questions I want to put in the record, Mr. Secretary, having to do with details of the Panamanian supplemental and the Eximbank, but I really think that this last exchange is going to be very, very important because it seems you agree with my premise that

we are likely to be debating El Salvador in terms of fences or cut-offs before we have a conclusion to the judicial process.

Mr. ARONSON. That is very possible.

Senator KASTEN. If that is the case, this is the question that will be before the Senate, and it will be incumbent upon you and others who ask that we carry forward our policy in El Salvador without fences and without cuts to show that the process is proceeding as you describe.

So, I look forward to working with you in that regard.

Mr. ARONSON. I would also urge the committee to do as you just did recently, which is to spend time in that country and scrutinize for yourself as well.

I think, to its credit, the Cristiani government has tried to open itself up and make the people available who are involved in this, and I think that they would continue to do so within the limits of their resources.

But I think your point is a good one. It is not unlike the point Senator DeConcini was making which is honest people are looking for some fair measure of whether this thing is moving forward in the right direction.

QUALITY OF INTELLIGENCE BRIEFINGS

Senator LEAHY. Thank you, Senator Kasten. I might note that I have spent a great deal of time in El Salvador, Nicaragua, Panama, Honduras, Guatemala, and other Central American countries. I do mean to compliment the administration on the quality and the candor of the briefings by the intelligence and State Department people who I met down there. The military was also a lot better than it had been on some previous trips. I just want to note that for the record.

Perhaps that had a lot to do with my willingness to work to expedite the emergency aid package to Panama. Senator Kasten and I obviously had our concerns here, as did Senator Byrd, justifiably, but those were all worked out very quickly with the help of Deputy Secretary Eagleburger, and I appreciate that. We did make it very clear that the money taken from Africa will have to be given back. I take comfort in the assurances of the administration in that area.

I think the President made the right decision in not waiving Brook by Executive order, but by doing it by legislation, and I compliment him on that.

EXPECTATION OF CONVICTIONS IN JESUIT CASE

Let me go back again to this area that Senator Kasten was raising on the prosecution of people in the Jesuit murders.

We may ask you a lot of things here, but we will not ask you to define obscenity or pornography. We will not even ask you to define the exact length of time a prosecution should take.

But you know and I know that in a judicial system like El Salvador's, the military can take the pressure off by simply arresting some people, holding them a bit until our short-lived attention—we are noteworthy for our short attention spans up here—moves on to something else.

Let me ask you some very specific things. There have been allegations made that people within the Salvadoran high command were involved in the Jesuit murders either as participants, accessories before the fact, or as accessories after the fact.

Do you expect to see anybody, anyone at the senior officer level ever convicted in the Jesuit murders? I mean, somebody above a lieutenant? Just speaking here today, in your heart and in your mind, do you ever really expect to see them convict somebody above that level?

Mr. ARONSON. I do not want to speak about any particular individual because they also have certain due process rights, so I should not say I hope some individual, but, yes.

The military has to be guided by the rule of law in El Salvador for there to be a functioning democracy, and historically that has not been the case. Everybody understands that it is a burden that the society has to meet, but I would note that in the last 8 months, starting with the *San Sebastian* case which, as I said, we raised under nobody's urging, they on their own investigated their own ranks and they jailed a major, two lieutenants, and nine enlisted men.

Now, in another case where there was pressure, they have arrested and indicted a colonel, three lieutenants, and five enlisted men and clearly they have to learn to live within the law and spare nobody regardless of rank when abuses are committed, and that has to be part of our policy.

We have to make it clear that that is a fundamental goal of the United States and if it is not met, that the Congress will act, as all of you have talked about doing. And I think it will help and I think it has begun to happen as terrible as these crimes were, and I think they were particularly terrible, given the individuals involved. Maybe something good can come out of it by making it a turning point in the creation of a judicial system down there, which has to be done.

It is a long way from that goal, but hopefully these two cases where high ranking military officers have been indicted will be a turning point.

Senator LEAHY. Let me go to that specifically.

I think of that line from Casablanca where they say: Round up the usual suspects. Charges have been brought, but no one has been convicted yet.

I mean, you talked about the *Archbishop Romero* case and the other two cases we have discussed here today, and there have been no convictions.

Now, my question still goes to this, and I just want to make sure I understand your answer.

In the case of the Jesuits, do you, based on everything you know about this—and obviously you in the State Department have looked into it very carefully—do you believe anybody above the rank of lieutenant will ever be convicted in this case?

Mr. ARONSON. I cannot answer that, and it would not be proper to answer it because it would be making a judgment of guilt before a trial, and you do not want me to do that.

Senator LEAHY. Let me ask you this question. Do you believe without any names, do you believe any people above the rank of

lieutenant were involved either actually or as an accessory in the murder of the Jesuits?

Mr. ARONSON. I believe that there is enough evidence to indict Colonel Benavides for having given the orders in this crime. The testimony of the lieutenants was he gave the order.

I also think that the judicial system has some terrible, serious holes in it, including the rules of evidence, particularly involving co-conspirators testifying against each other, and I hope that those terrible holes in their judicial system do not permit any individual so charged to fall through simply because the rules of evidence do not permit a conviction when in our system somebody would be convicted.

Senator LEAHY. Do you believe, based on everything you know—again without going to names—and everything you have looked at—do you believe that there are people other than the one colonel who has been charged, people within the military who knew who was involved with the killing and consciously held back that fact?

Mr. ARONSON. I have no evidence to suggest that, but I do not rule it out.

Senator LEAHY. Do you believe that may well have happened?

Mr. ARONSON. I have no evidence, so all I am saying to you is I think it ought to be investigated. I do not have any evidence to suggest it happened.

Senator LEAHY. Do you believe that people other than Colonel Benavides were involved in giving the orders for the killing of the Jesuits?

Mr. ARONSON. I do not have any evidence to make me believe that, no, but I do not—again, I think it should be—if there are any leads or any evidence that suggests that, it needs to be investigated.

KNOWLEDGE OF DEATH SQUAD ACTIVITY

Senator LEAHY. Do you believe that there are people within the Salvadoran high command who have direct personal knowledge of death squads, who have operated within the military during the past 5 years, operated and carried out deaths within the past 5 years based on all the information that you have had available to you?

Mr. ARONSON. I think there are some people who have not been as vigilant as I think they should have been in investigating those kinds of accusations, whether they had knowledge or not, I do not know.

But I think there are instances where those allegations were not followed up the way they should have been.

Senator LEAHY. Do you believe based on all the information that you have had available to you that there are people who as you say are not being vigilant enough, have purposely avoided following information they had available to them because they knew where it would lead?

Mr. ARONSON. I could not name you individuals, but I would not be surprised if there are.

LACK OF CONFIDENCE IN PROSECUTION IN JESUIT CASE

Senator LEAHY. Do you have any great confidence that we will see someone within the high command successfully prosecuted in the murder of the Jesuits?

Mr. ARONSON. I take it you mean a successful prosecution is a conviction, Senator, is that the test?

Senator LEAHY. It is the test I always used when I was a prosecutor, Mr. Aronson.

Mr. ARONSON. I cannot predict what a jury is going to do in a given case and, as I said before——

Senator LEAHY. But you must have thought about it.

Mr. ARONSON. I have thought about it, but it does not mean I can predict. You have a jury system down there that is somewhat different than our own. You have rules of evidence that are different from our own.

I do believe that as thorough and vigorous an effort will be made to prosecute and convict those accused in this case as possible, and I hope that justice will be done. Beyond that I cannot predict and I do not think it would be responsible of me to predict.

Senator LEAHY. I understand. Well, Mr. Secretary, I have looked at what they have down there, and I think they have a slippery slope of anticipation here because if one looks at the evidence that is there as well as the judicial system, one has to be very, very skeptical about whether anybody in the high command will ever be convicted of the death of the Jesuits, No. 1.

No. 2, there are some cynics who would suggest that this case may have moved as far as it has because the high command knows that.

And, No. 3, I would strongly suggest that notwithstanding President Cristiani's feelings about the whole thing, notwithstanding President Cristiani's determination to get to the bottom of these death squads—and I do not doubt his sincerity—I suspect that the high command sits with some sense of confidence that they are never going to be touched.

I would suggest that in cases of this nature, when some of the activity has been as endemic as it has, that there are an awful lot of people who are well aware of what is going on who have not come forward either through fear or because they feel no motivation to do so because no one at a high level is ever going to be prosecuted. If they come forward, their own careers are jeopardized. There is no incentive in the military like American aid being cut off or anything else to bring them forward.

I do not mean to suggest by any of these questions that you or anybody else in the administration condoned death squads, either the right or the left. I do not know how men and women of good conscience ever could, but I disagree very much with you and the administration regarding how we ever get any real pressure on them.

I think the Salvadoran military leaders are laughing at us. I think they have been doing this for 9 years. Not to our faces; they get very serious when we go down there. I am sure they are very serious with you, as they were with me. I am sure if I stayed there for 2 months, they would continue to be very serious.

When something like this happens they say they will investigate, it was terrible, it was awful, especially when the news media is there, and there will be even more concern during that time, but then the news media itself goes on to other issues, other places.

If they absolutely have to do something to keep from getting us too upset, then they go off and jail one of their own who gets too stupid and says too much. But I do not think anything has changed.

I think our country has been used. We spent $4 billion down there. What have we got for it? Some say democracy, but there is no democracy without justice. Earlier, you admitted there is practically no real justice system or justice in El Salvador.

Years ago you said we should condition our aid. Now, tens of thousands of deaths later, if I hear you correctly today, you are saying we should not condition our aid.

You say that the army already knows that they cannot get away with murder. Well, they have and they are, and I suspect they will again.

For 9 years the Salvadorans have said send a signal by deeds, not words and empty threats. I think that when you deal with a country with El Salvador's history, if we do not link our military aid with specific improvements in human rights and steps toward peace, our aid will not really accomplish much of anything.

I am going to try to do that again. I will try to link our aid specifically to human rights improvements. If past history is any indication, I suspect the administration will fight that again. The Salvadorans will watch. If they find that the administration is successful in blocking any conditions on human rights progress, they will breath a huge sigh of relief and say we are on to business as usual.

SUPPLEMENTAL APPROPRIATION FOR PANAMA

Enough on that. We will look forward to the Panama aid request when it comes up here. We will put a refugee package together with it and we will take care of returning the money to Africa at that time. We will have a whole lot of specific questions in this committee. Specifically, we will want to look at the problem of the secrecy of the Panamanian banks. Also, we want to know whether the PDF is really being turned into a police force and will not just be sitting there waiting for another man on horseback to lead them to take over the country, de facto or de jure.

DEBATE ON EL SALVADOR WILL CONTINUE

We may have a debate on El Salvador at that time. I suspect we will and, of course, the amount of money is probably more than we are going to be able to afford, so we will take a look at that, but we will spend time with you on it.

Mr. Secretary, I cannot begin to tell you about what I see as successes in foreign policy in various parts of the world, but I can tell you how distressed I still am with El Salvador and how discouraged I am that nothing will come of it.

JOSEPHINE BEECHER

We will be submitting a number of questions for the record, but I want to point out one in particular regarding Josephine Beecher, an American church worker arrested last November. I certainly want to give you a chance to respond any way you want, but you may have to make part of the response classified. Anyway, you will be receiving this and many other questions to answer for the record.

Mr. ARONSON. I agree with some of what you said about El Salvador, and I disagree with part of it.

I appreciate the nice things you said about the Embassy in the briefings, and I hope that you understand that there is absolutely no distance between us in terms of what we are trying to accomplish in El Salvador.

The death squads have been a perversion in the society, and they have to be rooted out. And clearly the military has to be on the side of human rights if it is deserving of our aid, no doubt about that.

I think you are not giving the Salvadorian people and the United States enough credit, and we have had this conversation before, for what we have accomplished in 10 years.

The fact is that this is a society that was a feudal society, premodern in many ways which was ruled by a small, tiny elite. All the land was controlled by a handful of families, a few hundred. The military essentially enforced that dictatorship through its power.

And one of the things that is not known about this country because the military is so often the subject of criticism, and much of it deserved, is that the military are among the elements within El Salvador, which took the lead in overthrowing the dictatorship that was in 1979.

There was not a popular revolution in El Salvador. There was a coup within the armed forces led by younger officers who overthrew the military dictatorship. They tried to fashion a coalition government of the left and right. It was the military junta that instituted the land reform program in El Salvador, which has caused the distribution of 20 percent of the land to peasants.

The military has gone through an evolution. It is not yet complete, but this is an institution that in 1972 stole Napoleon Duarte's electoral victory and in 1984 guaranteed it, and many within that institution probably thought Duarte was a Communist and a threat to the country, and yet they protected with their lives the integrity of the elections. They did it again in 1989. And this issue of human rights is fundamental, and they have to make a similar evolution, and I think they have begun to do so, but that does not mean there are not elements within the armed forces that are reactionary and still hold to the old views and have to be changed.

But had we simply disengaged from this country and not been involved over the last 10 years, I guarantee you that if you looked at it, you would not feel either proud or sanguine about what the society looked like. I think you would feel terrible and, more importantly, the Salvadoran people would be in much worse shape than

they are now. That does not mean it is a good society or it is at peace, but it could be worse and it would have been worse, and it will be worse if we simply walk away.

The test, in terms of changing legislation, is how do you do what you want to do, which is to keep steady, effective pressure on the government and the military, which I want to do as well, without also either giving a green light to the FMLN to keep prosecuting the war or making negotiations impossible?

And it is not an easy formula. Maybe we should talk about it sometime. But I hope you will agree that it is not an easy formula, and it is part of our mutual responsibility to think about.

Because if the purpose is to defend human rights, then I hope nothing we do, either at the congressional end or at the administrative end, will wind up, despite the best of intentions, leading to more violence and more innocent people killed.

CORRUPTION OF UNITED STATES AID TO THE SALVADORAN MILITARY

Senator LEAHY. I think there is an easy formula. And that is to actually suggest to the military that we really will withhold some aid unless there is an improvement.

To date, we have not done that.

I am sure you know about the New York Times magazine article of December 10 by Joel Millman entitled "A Force Unto Itself." It describes rampant, institutionalized corruption at the highest levels of the Salvadoran military.

It describes a slush fund of over $100 million that the military is using to buy up Salvadoran real estate and businesses.

It describes, as common practices, the diversion of salaries for nonexistent soldiers to the slush fund.

And after more than 1 year in El Salvador, the reporter concluded, "Instead of fostering reform, the American money has been absorbed into a network of corruption and patronage that has made the Salvadoran military an empire unto itself."

The American policy has reinforced the Army into the most powerful institution in the country. Army officers remain an untouchable caste.

My suggestion, Mr. Secretary, is that we get the military to help improve and ensure democracy by offering a credible threat: that we will hold money back if they do not improve.

Mr. ARONSON. I just do not think that is true. I think that threat is implicit in our policy all of the time. And I think they have gotten the message many times over the years.

Do you think when Vice President Bush went there in 1983 that he was simply saying do this as a favor, but if you do not do it, it will not make any difference?

Senator LEAHY. I thought he made a very good statement and a number of points, and I told him so at the time. But the fact of the matter is the aid kept right on going with no strings attached.

Mr. ARONSON. But the changes that he asked for were made. If you have a policy of basic incentives and disincentives, then you have to be willing to respond——

Senator LEAHY. Mr. Aronson, you can pick out a couple of little changes, often cosmetic, and say, there, we have accomplished it. If

you want to set just that goal as being the accomplishment, fine, we can do it.

The fact is that there is still rampant corruption. The fact is that millions and millions of dollars of American aid is being siphoned off into corruption.

Mr. ARONSON. Are you talking about military aid there?

Senator LEAHY. I am talking about U.S. aid.

Mr. ARONSON. Could you give me an example?

Senator LEAHY. Mostly U.S. military aid.

Mr. ARONSON. Could you give me an example?

Senator LEAHY. Well, how about the fact that we support and really pay for most of the military down there. How are these people owning Mercedes, magnificent homes and on and on?

Mr. ARONSON. Senator, our military aid, as you know, we do the procuring, and most if it is in-kind. So I would like you——

Senator LEAHY. We had testimony here last year when we asked specific questions about in-kind. I asked if they followed it carefully? We had a man from the Department of Defense testify that he watched that aid go right into the warehouses—he counted every bit of it.

I asked if he saw where it went from there?

He said: Oh, no, we have no idea what happens to it then. We both know a lot of it hit the black market.

Mr. ARONSON. Senator, I hope you will bring whatever examples of corruption involving our aid to the attention of the administration as soon as possible.

Senator LEAHY. Mr. Secretary, if it is your point that there has been no corruption of our aid there then——

Mr. ARONSON. I am asking you for the examples, Senator.

Senator LEAHY [continuing]. I will take that as the administration's position—that you say there is no corruption. Are you saying that?

Are you saying that?

Mr. ARONSON. Senator, I am asking you to bring this to our attention.

Senator LEAHY. No; answer the question.

Mr. ARONSON. You said there is, and I would like your evidence.

Senator LEAHY. Are you saying there is no corruption of our aid down there?

Mr. ARONSON. No; I am asking you for whatever evidence you have.

Senator LEAHY. No; please, answer the question. Yes or no. Is there corruption in the use of our aid down there, yes or no?

Mr. ARONSON. Which aid or you referring to, Senator?

Senator LEAHY. Yes or no. Any American aid, yes or no?

Mr. ARONSON. I do not know, Senator. I am asking you. You raised the charge and I am asking you for an example.

Senator LEAHY. Wait. You guys administer it. Are you telling me that there is no corruption?

Mr. ARONSON. I do not administer it.

Senator LEAHY. Is that the State Department's position. We can assume if we vote for aid up here that there is no corruption in American aid in El Salvador? Is that your position, yes or no?

Mr. ARONSON. Senator, here is our position. We are absolutely committed to root out any corruption.

Senator LEAHY. Oh, God love us, aren't we all?

Mr. ARONSON. We have inspector generals. And if you have any evidence, I would urge you to bring it to our attention.

Senator LEAHY. Mr. Secretary, is it your position that there is no corruption involving American aid in El Salvador, yes or no?

Mr. ARONSON. I cannot answer hypothetical questions without any specifics.

Senator LEAHY. That is pretty damn specific. I mean we are spending $1.5 million a day down there. Is there any corruption?

Mr. ARONSON. If you are asking me has there ever been $1 of United States aid stolen in El Salvador, I doubt that the answer is no.

Senator LEAHY. How about $2?

Mr. ARONSON. And I doubt that it is true in any other country in the developing world, as well, Senator.

Senator LEAHY. Obviously, you are not going to answer the question.

Mr. ARONSON. Senator, you raised a serious issue of alleged corruption, and I would appreciate it if you would give us specifics if you have any.

Senator LEAHY. Are you familiar with the Millman article that I referred to?

Mr. ARONSON. Yes; I am familiar with it.

Senator LEAHY. There are specific allegations in there. Has your inspector general looked into any of those?

Mr. ARONSON. I do not frankly think most of those are very specific. But we will ask the inspector general to look into this article.

Senator LEAHY. No, no; has he?

Mr. ARONSON. I do not know, Senator. The article came out just 6 weeks ago.

Senator LEAHY. Let me ask you this. Since you have been on the job, has there been any specific, credible allegation of corruption in the use of American aid that has come to your attention?

Mr. ARONSON. In El Salvador?

Senator LEAHY. Yes.

Mr. ARONSON. I do not think so. But that does not mean anything. My office is not where those things would come to.

Senator LEAHY. OK.

Mr. ARONSON. I have many responsibilities, but administering our aid program is not one of them.

Senator LEAHY. Mr. Secretary, I understand that. And I will ask the same question of others who do.

Are you aware of any specific allegations, since you have been on the job—and I am putting it in a very short time span—are you aware of any specific allegations of corruption in the use of our aid in El Salvador?

Mr. ARONSON. I think I just answered that. And I think the answer is no.

Senator LEAHY. OK.

Mr. ARONSON. There may have been something involving $100,000 in fuel that was cleared up, but I am honestly not sure.

Senator LEAHY. OK. So other than the possibility of $100,000 out of our $4 billion on an issue that was cleared up, you are not aware of any?

Mr. ARONSON. No; but it does not mean anything.

Senator LEAHY. OK.

Mr. ARONSON. Now can I ask you the same question? Are you aware of any, and could you bring them to our attention?

Senator LEAHY. Well, I will tell you what. When we can turn the thing around and you are running the hearing, I will be glad to answer any questions you want. But you do not mind if maybe we keep to sort of the old tradition of I will ask the questions?

Mr. ARONSON. I respect the tradition, Senator. But I also respect the notion of due process. And that when people make charges that they ought to have evidence. But I certainly respect the tradition of the committee.

Senator LEAHY. Well, no, I am asking you specifically, are you saying that there is no corruption down there?

Mr. ARONSON. And I answered the question, Senator.

Senator LEAHY. No; not really. But your answer is on the record. Maybe that is a better way of putting it.

We will take some of the allegations from that Millman article, break them down into questions from it, and ask you for specific responses to it.

Because if it is the State Department's position that we do not have corruption, above your statement that maybe $1 got stolen somewhere——

Mr. ARONSON. No; that is not what I have said, Senator. You asked me if I personally, on my job, have had this brought to my attention. And I told you I do not have direct responsibility for administering the aid.

Senator LEAHY. I accept that. And you say none has been brought to your attention?

Mr. ARONSON. To my memory, that is correct.

Senator LEAHY. OK.

And that is fine. I accept that answer. We will now send you the specific questions and some of the specific items. And then my question will be, is the State Department or anybody within the State Department aware of any of these allegations?

I ask this question only to follow up on my earlier statement that I appreciated the briefings I got. Without going into the nature of those briefings, I would hope, Mr. Aronson, that it is not your intention to leave the impression within this room that there has been no theft, diversion, or corruption in the use of American aid in El Salvador.

Mr. ARONSON. No; it is not my intention.

Senator LEAHY. OK.

Mr. ARONSON. Because it is not a subject that I have a lot of particular expertise about.

Senator LEAHY. I understand.

Well, we are going to give you a chance to get more expertise when the questions come down.

Mr. ARONSON. Terrific, that is just what I need.

Senator LEAHY. You are looking forward to that.

Are there any other questions?

Mr. ARONSON. I do not have enough to do in my current job.

Senator LEAHY. I beg your pardon?

Mr. ARONSON. I said I do not have enough to do in my current job, it will be good to take on new responsibilities.

I read this article and I think it raises some real questions, and some of it, frankly, is a mishmash of charges, some totally unsubstantiated, from the early 1970's. But I guarantee you that if you look at that military and any other in Latin America, you are going to find corruption.

So if you want to know whether those institutions, at some level, and in some ways, these ghost soldiers, whether that kind of practice has been going on, I suspect some units still have it, and so do most Latin militaries.

I was trying to raise the question about whether our military aid was in some way being used in a way that you considered corrupt. And I just was interested in whether, on that issue, you had some information.

Senator LEAHY. Mr. Aronson, you say that we see corruption within the military of some of the Latin American countries. Is there any other country in Latin America or in Central America that gets as much military aid from us as El Salvador on a per capita basis?

Mr. ARONSON. Neither on a per capita nor on an absolute basis.

ADDITIONAL COMMITTEE QUESTIONS

Senator LEAHY. OK. Well, that is why I am really more concerned about the corruption there than I am in the other Latin American countries, although I appreciate your pointing out that others have some problems, too, and if we have a military aid package for them, then I will be glad to ask questions about them, too. We will hold the record open for written questions.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

NEGOTIATIONS AND THE FMLN

Question. The FMLN made some concessions in the negotiations last year, including giving up their demand for a share of power and recognizing the legitimacy of the electoral process. They continue to insist that military officers responsible for human rights abuses be purged.

Within the limits of Salvadoran realities, what can President Cristiani do to ensure that if the FMLN joins the political process they will not end up like Father Ellacuria?

In your best judgment, what steps would Cristiani have to take to convince the FMLN that it was safe to do so?

Answer. President Cristiani recognizes the legitimate security concerns the FMLN will have in demobilizing and reincorporating into the democratic political process in El Salvador. This is one of the difficult issues that President Cristiani is prepared to address within the context of peace negotiations. It has also been addressed by the five Central American presidents in the context of regional peace efforts. In the Guatemala Accords (also known as Esquipulas II) of August 1987, the presidents proposed that an amnesty be offered in those countries in conflict which would enable armed opposition groups to lay down their weapons and rejoin the democratic political process, with the necessary security guarantees. Then-President Duarte did extend such an amnesty, whose beneficiaries were mainly individuals jailed for politically-motivated crimes. In the San Isidro declaration, the presidents requested that the International Commission of Support and Verification immediately take steps toward the demobilization of the FMLN. The process by which FMLN combatants disarm and return to civilian life might also be overseen by the OAS or the Church.

This Administration has a great interest in seeking to ensure that the political, civil, and human rights of all Salvadorans will be respected in a Post-insurgency society. It was not so long ago that leaders from leftist parties preferred self-imposed exile rather than chance political participation in El Salvador. Now they have returned as El Salvador struggles to expand the political space in which those parties operate. Strengthening of the judicial system and increasing the professionalism of the security forces are two developments which would encourage those who remain outside the democratic process to rejoin it. These are also two of the goals of U.S. policy in El Salvador.

INVESTIGATION OF THE JESUITS CASE

Question. Has the Administration considered requesting the Salvadoran Government to invite a full scale independent investigation of the Jesuit murders by a competent outside agency, such as Scotland Yard? Would the Administration be prepared to seek funds to reimburse the costs of such an independent, parallel investigation, if the Salvadoran Government agreed to make such a request?

Answer. Shortly after the murders, President Cristiani requested assistance in the investigation from the United States, Great Britain, Spain and Canada. We offered the services of the FBI to assist the U.S. - funded and trained Salvadoran Special Investigative Unit (SIU). The FBI continues to provide technical assistance as the investigation proceeds. As you know, the SIU developed the forensic evidence that led to the arrest and charging of army officers and enlisted men for the crime. The SIU's investigation

has been reviewed by experts from the U.S. and other countries and found to be highly professional and thorough.

Great Britain, Spain and Canada consulted with the Salvadoran Government as to the most appropriate and effective type of assistance they might offer. I understand that Spain and Scotland Yard each sent a team of detectives to El Salvador to review the SIU's progress and apparently were satisfied with the results, to date. I do not believe that anyone feels that an additional, parallel investigation is required. Indeed, it is not clear that, given Salvadoran law, the results of an independent inquiry could be introduced into the judicial process or assist in prosecution in any way.

Certainly, if the Salvadoran Government believed that an independent investigation would improve the prospects for the prosecution and conviction of the guilty, we would consider facilitating that inquiry.

BIRI ATLACATL HUMAN RIGHTS RECORD

Question. According to Americas Watch, Atlacatl "has a particularly horrific human rights record." It has been implicated in a string of massacres of civilians throughout the past nine years:

- o Massacre at Mozote, 1981
- o Killings at Cpoapayo, 1983
- o Massacre at Los Llanitos, 1984
- o Massacre at Gualsinga River, 1984
- o Two captured civilians tortured to death, 1989.

Were these incidents ever formally investigated? Were any officers or soldiers ever prosecuted?

Has the United States, through its military assistance program, ever sought to provide training to this battalion in the observance of the laws of war and respect for human rights?

Answer. At least two of the first four incidents you mention were investigated by the military. In none of those cases were charges brought against members of the military.

The First Brigade and the National Guard investigated the circumstances of the August killings of Lucio Parada and Hector Joaquin Miranda Marroquin. The two were picked up on suspicion of terrorist activity by members of the Atlacatl Battalion in July. They were subsequently turned over to the First Brigade. Both investigations came to the conclusion that two First Brigade soldiers -- Salvador Alcides Gomez Gomez and Cesar Vielman Joya Martinez -- were guilty of the homicides. Gomez is in detention in El Salvador, while Joya Martinez, after learning that he was suspected of the crime, deserted from the army and entered the United States illegally. He has confessed his participation in this and other crimes. The Salvadoran Government has issued a warrant for his arrest, and has requested his extradition.

We have provided human rights training and training on observance of the laws of war to some members of the Atlatacl Battalion over the years.

NEGOTIATIONS AND THE MILITARY

Question. I remember in 1985 an American military adviser saying the FMLN would be defeated in two years.

In a New York Times Magazine article last year James LeMoyne quoted Colonel Ponce, now the Army Chief of Staff, saying the war would go on for years."

The FMLN offensive did not cause the popular uprising they wanted but neither did they show signs of being close to defeat.

In your best judgment, does the Salvadoran military leadership desire a negotiated settlement of the war? What steps is the Army prepared to take in order to get the FMLN to negotiate a settlement?

Answer. The military leadership recognizes clearly that the war cannot be ended by a military victory by either side. The price the country continues to pay for "military solutions" was no where better demonstrated than in the FMLN "final offensive" in November, which cost 3,500 lives and approximately $100 million in damage. The military have also paid a more personal cost in the FMLN terrorism directed against family members.

The Salvadoran Armed Forces have backed President Cristiani fully in his efforts to engage in peace talks with the guerrillas, including sending a representative to the second round of talks in San Jose in October. Minister of Defense Gen. Larios accompanied President Cristiani to New York earlier this year to meet with the UN Secretary General to discuss resuming negotiations. It is true that the military as an institution is certainly skeptical of FMLN intentions and that individual officers no doubt reject the possibility of a negotiated end to the war. However, the Salvadoran Amed Forces are committed to fully supporting President Cristiani's search for a negotiated settlement and to abiding by the provisions of that settlement.

MILITARY CORRUPTION: GHOST SOLDIERS

Question. Please comment on the following allegations in the Millman article, including what action you have taken to investigate them.

1. "In fact, many commanders do fill these re-enlistment slots -- with plazas ficticias, or 'ghost soldiers.' These are non-existent soldiers, names added to the brigade's roster that drew salaries divertable into the brigade slush fund.

Answer. We understand that the practice of creating ghost soldiers for the purpose of diverting salaries does exist. Colonel Ponce recently began an Army investigation of the practice, including the use of polygraphs on brigade paymasters.

We do not approve of this practice, and have urged the Salvadorans to follow up with investigations and prosecutions, as warranted.

MILITARY CORRUPTION: MISSING COMPANIES

Question. "'Just about every brigade lists at least one 50-man company that isn't there,' said one major. 'Each of those 50 pay slots brings 500 colones each month. The rapid growth of the officer corps, far from eliminating such abuses, has actually worsened them."

Answer. As previously noted, we are aware of the practice of creating false pay slots for the purpose of illegally diverting funds. The Salvadorans are investigating the problem.

The Salvadoran officer corps grew in size with the army as the Salvadoran government and armed forces sought to deal with the threat posed by the FMLN insurgency. The purpose in expanding the military was to address the war.

Once again, we do not approve of or accept illegal activities, and have pressed the Salvadorans to investigate.

MILITARY CORRUPTION: "RENTING" SOLDIERS

Question. "Colonels still rent out soldiers to guard coffee plantations, factories and bus lines, charging from $200 to $300 per man per month."

Answer. We have no direct information to confirm this allegation. We would not approve of it, and have encouraged the

Salvadorans to investigate and follow up with prosecutions, as warranted.

The best investigative body in El Salvador is the U.S.-trained and equipped Special Investigative Unit. However, the Unit does not have the resources to address every case needing investigation.

MILITARY CORRUPTION: IPSFA ABUSES

Question. "All this is small change when set against the Army's Social Security fund called the Social Provision Institute of the Armed Forces (IPSFA) ... every soldier who finishes his two-year hitch pays $150 into an IPSFA account, but only the disabled, or the families of the dead, receive any payments ... the fund has become a money tree, growing to more than $100 million by the end of 1988."

Answer. Officers and men make certain required payments into the IPSFA to provide for retirement and disability payments and survivor benefits. Money from this fund is used to pay for the care of orphans and widows left behind by deceased members of the military. IPSFA is also a credit union for armed forces members, to which members make payments into individual accounts. The $100 million figure -- which appears to be roughly accurate -- would include required payments and individual savings accounts.

MILITARY CORRUPTION: IPSFA PURCHASES

Question. "So the military has been buying property: estates once belonging to the old oligarchy; prime real estate in San Salvador's suburbs ... This year, the military paid $2 million for an oceanside resort ... there are plans for an IPSFA insurance company and land bank ... IPSFA has even purchased -- for $5 million -- a 13 story office tower for the new Bank of the Armed Forces, which it expects to open next year.

Answer. IPSFA's assets have grown as the number of military troops has grown. There are more officers and men, hence there are more required payments and more individual accounts. We understand that IPSFA did purchase a bankrupt oceanside resort this year. The resort had been constructed in the late 1970s as a tourist facility, but the war ruined the prospects for that enterprise. After being abandoned for several years, the IPSFA purchased the hotel. We cannot confirm that IPSFA purchased the Democracy Tower, but the IPSFA -- one of the largest banking institutions in El Salvador -- could well have provided financing for its construction. These are legitimate investments which stay in El Salvador, provide domestic employment opportunities, and earn profits for the IPSFA. In other words, these investments are capitalist endeavors which could benefit all Salvadorans.

MILITARY CORRUPTION: IPSFA FUNDS

Question. "One of Alfredo Gristiani's first acts after becoming president was to order that all institutional funds, including IPSFA's, be deposited in the country's central bank. When the military balked, he backed down.

Answer. We cannot confirm this story.

MISTREATMENT OF AMERICAN CHURCHWORKER

Question. Are you familiar with the case of Josephine Beecher, an American churchworker who was arrested at a church and interrogated by Salvadoran Treasury Police last November?

According to Ms. Beecher, who is known to several constituents

of mine, she was blindfolded, handcuffed, hit on the head and threatened with electric shock and death. She also said she was forced to sign a statement that she was not mistreated, and that a U.S. consular officer was at the police station during her ordeal.

According to a November 29 article in the Washington Post, her case was being investigated by the State Department. What can you tell me about it?

Answer. Our Embassy in San Salvador was notified by the Salvadoran National Guard of Ms. Beecher's arrest and immediately sent a consular officer to Treasury police headquarters, where Ms. Beecher was being held. The consular officer worked throughout the day to secure Ms. Beecher's release. At one point the consular officer left the room to speak with a more senior Treasury Police official and Ms. Beecher says that it was at that point that she was hit on the head and threatened. She also complained of being handcuffed, blindfolded, denied bathroom facilities, and being pushed and shoved. I assure you that if the consular officer had known that Ms. Beecher were going to be abused in any way, he never would have left her.

When the consular officer had secured Ms. Beecher's release order and she was asked to sign a police form, Ms. Beecher crossed out the part on the form that stated that she had not been mistreated. However, the police indicated that they would not release her unless she signed the form in its entirety. When the consular officer informed Ms. Beecher of this, Ms. Beecher then decided to sign the form but asked that the consular officer witness that she signed the unamended form under duress. Ms. Beecher then asked that the Embassy not protest her mistreatment until her friends under arrest were also released. The Embassy respected her wishes. The Embassy did protest her mistreatment later, raising the issue directly with the commander of the Treasury Police.

PANAMA POLICE AID

Question. One of the things people are very concerned about is what will replace the Panamanian Defense Force. Has Panama definitely decided not to have a military? Has the U.S. expressed a position on that to the Panamanian government?

What is an appropriate size police force for Panama?

I understand you plan to ask for funds to equip the police force, including with weapons. Do you have assurances that no police officer who was a member of Noriega's PDF will be put in a position of authority?

Am I right that any U.S. training of police will be done by civilian law enforcement personnel?

Answer. The Endara Government has made clear that Panama will not have a military force; that instead it will establish an entirely new structure, including various institutions under civilian control to provide checks and balances. The Panamanian "public force" is headed by the minister of government and justice and contains three elements: the national police, the maritime service, and the air service. This new security organization will be primarily responsible for traditional police functions and fully accountable to civilian authority. The technical judicial police are to be placed under the Attorney General (an office of the judicial branch). Customs and Immigration have similarly been separated out and placed under civilian control. The U.S. fully supports the Panamanian Government's decision in this regard and has offered to assist in the establishment of a truly professional law enforcement institution.

The question of the size of the police force for Panama is a matter for the Government of Panama and the people of Panama to resolve. We note that the government has stated that the final size will be considerably below that of the old Panama defense force (PDF).

Even at this time, the ratio of police to population is similar to that of U.S. cities (including Washington).

Although the new force is comprised of individuals who previously served in the PDF, the Government of Panama has undertaken a careful screening of candidates for leadership positions in the new public force in an effort to prevent placement of Noriega loyalists or others guilty of abuses in the new organizations. In discussions with us, Panamanian officials have stressed that this matter is a top priority for the new government. All of those who held the rank of colonel in the former PDF and 14 of 17 former lieutenant colonels have been excluded from the new organizations.

The emergency legislation signed into law February 7 allowed for more than $500,000, of lethal assistance to the new Panamanian services to provide weapons appropriate to civilian law enforcement functions (pistols, shotguns); the administration does not intend to seek authority for additional lethal assistance.

The U.S. is committed to assisting Panama establish a professional law enforcement institution. We intend to provide civilian law enforcement instruction in all areas of basic police skills. Our training programs will be conducted primarily under the auspices of ICITAP (International Criminal Investigation Training Assistance Program). As in other countries where we have an active administration of justice program, the trainers will be civilian contract employees of ICITAP. These include both U.S. and Latin American nationals.

QUESTIONS SUBMITTED BY SENATOR DANIEL K. INOUYE

Question. What special training will the new Panamanian police receive to ensure their future commitment to democratic government and the rule of law? What is the cost of this training? Who is responsible for the training?

Answer. The Panamanian Government has made the decision to demilitarize the security forces and establish in their place a civilian police force. In response to that government's request, we are prepared to provide civilian law enforcement instruction in all areas of basic police skills. The training will include courses in patrol and traffic, minimum use of force, mechanics of arrest, investigations and ethics and discipline in policing.

Under the Urgent Assistance for Democracy in Panama Act, $1.2 million will be provided for police assistance through the International Criminal Investigative Training Assistance Program of the U.S. Department of Justice (ICITAP). ICITAP will be providing technical assistance in the development of police practices and curriculum for a new police academy, as well as the training cited above.

Of the $42 million in new economic assistance authorized by the legislation, $1.2 million is for training and technical assistance for the new police force through the International Criminal Investigative Training Assistance Program of the U.S. Department of Justice (ICITAP). ICITAP will be developing basic and advanced courses for the new police, incorporating respect for human rights and other legal norms critical to professional police work.

Question. I understand that the Administration has requested that $30 million in assistance to Panama be deobligated from Sudan and Somalia. I would like to know why Africa, a continent that receives less aid than any other region, should be cut again. Would it not be better to spend this $30 million elsewhere in Africa and find the money to aid Panama from other sources?

Answer. Two programs for which funds were obligated in the past

-- Sudan and Somalia -- are unable to utilize these funds because of longstanding difficulties in meeting program conditions required for disbursement. By contrast the funds currently programmed for Latin America are obligated for programs which are valid assistance requirements and for which there are strong U.S. foreign policy interests at stake. Thus it is only reasonable to take funds from inactive programs rather than from high priority activities which serve important U.S. interests.

With respect to possible other uses of the Sudan/Somalia funds in Africa, it is important to note that the Congress appropriated the administration's full FY 1990 request for development assistance for Africa. Of course additional economic assistance can be used in any of A.I.D.'s programs worldwide, but some shifting becomes inevitable when new and critical U.S. foreign policy interests arise.

PROTECTION OF CHURCHWORKERS

Question. I am pleased that the Cristiani Government has taken significant steps to bring the killers of the six Jesuit priests to justice. Can you tell the Committee what actions are being taken by President Cristiani to ensure greater protection of human rights and thus prevent additional killings of Church leaders and other human rights workers?

Answer. During the FMLN offensive in November, our Embassy in San Salvador received reports of raids and/or searches of 25 religious institutions by the Salvadoran Armed Forces. Most of these occurred during the first 10 days of the offensive, when the fighting in San Salvador was the most intense. In most cases, the raids and arrests were based on information that the institutions raided were providing support to the guerrillas. The vast majority of religious and humanitarian organizations and facilities were not affected by the raids. Nonetheless, in response to church concerns, President Cristiani directed that no raids of church, humanitarian, labor, and similar organizations be undertaken without the consent of the President or of the Chief of Staff.

President Cristiani also met with religious leaders in El Salvador to hear their concerns and address the perception of governmental persecution of churches. As a result, President Cristiani has ordered the establishment of a Religious Directorate to provide direct access to the President for church groups.

Of course, the most effective deterrent against such atrocities as the murders of the Jesuits is the prosecution, conviction, and punishment of the guilty. We share your encouragement at the progress in the Jesuit case and believe it is an indication that justice will be served in this case.

QUESTIONS SUBMITTED BY SENATOR DENNIS DeCONCINI

Question. As you may recall, I was very involved in the debate over the Panama Canal Treaties in my first years in the Senate. I was also the author of what became known as the "DeConcini Reservation" to the Canal Treaties. While not claiming to have the foresight that this invasion would occur, it was for emergencies such as that which we experienced in December that I felt the reservation would be necessary. How helpful was the reservation in assisting the President in legally justifying his actions as they pertained to Panama?

Answer. Under the Panama Canal Treaty, the U.S. has primary responsibility for the protection and defense of the Canal until the end of the century. Article IV of the Panama Canal Treaty also gives the U.S. the right to station, train and move military forces within the Republic of Panama. These provisions clearly establish the right

of the U.S. to act in defense of the Canal and its treaty rights during the duration of the Panama Canal Treaty -- that is, until the year 2000. A primary objective of the U.S. military operation in Panama in December 1989 was to reestablish conditions which would permit the U.S. to continue to operate and protect the Canal and to exercise its treaty rights without risk or interference. In this regard, the Panama Canal Treaty was a basic element in the justification for Operation Just Cause.

The DeConcini condition was made with respect to the treaty concerning the operation and permanent neutrality of the Canal, that is, the treaty which governs U.S. rights and responsibilities after 2000. The DeConcini condition coupled with other provisions of the treaty and the instruments of ratification clarifies and reinforces the rights and responsibilities of the U.S., together with Panama, to defend the neutrality of the Canal after 2000.

Question. Panama's financial sector was an important source of employment prior to the placing of United States sanctions. Now we are working with the Panamanians to remove the bank secrecy laws that allowed drug money to be easily laundered and hidden. Can this sector recover without the bank secrecy laws that would allow the country to once again become a center for laundering drug money?

Answer. We are very encouraged by indications that the Endara Government is quite serious about attacking Panama's money laundering problem, and that it recognizes that Panama's bank practices have contributed to this problem. Attacking this problem, on February 13, the Panamanian Cabinet approved a decree which would, among other things, establish a requirement for recording of transactions in excess of $10,000.

The GOP has made it clear that Panama's laws requiring banks to maintain confidentiality of their customers' accounts do not shield such account information from scrutiny by the appropriate authorities in law enforcement investigations. The GOP has noted that Noriega's selective enforcement more than the laws themselves contributed to the money laundering problem in Panama.

In addition, the Endara Government has made clear its interest in establishing with the United States a mechanism for obtaining evidence needed in criminal investigations and prosecutions, and we intend to move quickly to establish such a mechanism. Obviously, such evidence would include bank records, and any U.S. proposal would include a mechanism for obtaining such records in appropriate cases.

If these mechanisms are established and enforced, Panama will be able to combat money laundering without doing away with appropriate bank secrecy. A country can have both bank secrecy laws and effective safeguards against money laundering in many countries, including our own, strict secrecy laws protect the ordinary account holder from unwarranted publication of his private account information, but provide for examination of bank accounts in cases of criminal investigations. We are confident that the Panamanian banking sector will benefit from protection from money laundering activities in that such protection would also increase international confidence in Panama as a place in which to invest. Our experience in other financial centers which have adopted measures to combat money laundering is that strict controls coupled with due process safeguards do not adversely affect the viability of the financial center.

Question. Last night, the Senate approved the emergency legislation authorizing $42 million in housing and security aid for Panama. Of this money, I understand that nearly $7 million is intended to be used to purchase new uniforms for the security forces. While many people in this new force were also members of the old and much-despised Panamanian Defense Forces (PDF) and do not like to wear their old uniforms, are new uniforms really one of our highest

priorities for Panama? How much of this money is going to be used for training, including training in law and human rights?

Answer. Our highest priority has been and remains to support the democratically elected government of President Endara within the limits of congressionally authorized assistance. With respect to uniforms, the Government of Panama repeatedly identified as one of its most urgent needs "standing up" the Panama public forces, which includes giving them a new, civilian law enforcement identity. Prior to the enactment of the emergency legislation, it invested $1.8 million of its own limited resources to begin the acquisition of appropriate uniforms.

The emergency legislation authorizes the use of unexpended MAP and FMS from previous years to procure law enforcement equipment. As notified to Congress, these funds are being used to provide uniforms, transportation, communications and appropriate civilian law enforcement police weapons. Current plans allot approximately $2.5 million to uniforms.

Of the $42 million in new economic assistance authorized by the legislation, $1.2 million is for training and technical assistance for the new police force through the international criminal investigative training assistance program of the U.S. Department of Justice (ICITAP). ICITAP will be developing basic and advanced courses for the new police, incorporating respect for human rights and other legal norms critical to professional police work.

FOREIGN ASSISTANCE IN JESUIT INVESTIGATION

Question. Turning to El Salvador and the case of the Jesuit priests, I stressed to President Cristiani when I was in San Salvador, that the credibility of the investigation might suffer if only United States investigators were seen to be assisting the Salvadorans in the investigation. He assured me that others from Spain and Britain had been asked to assist. Now I understand that President Cristiani has announced that all international investigators have left El Salvador.

Is this accurate? Are the FBI investigators through with the case? Was Scotland Yard or some other outside group involved with the case? Are the investigations now complete?

Answer. Shortly after the murders, President Cristiani requested assistance in the investigation from the United States, Great Britain, Spain and Canada. We offered the services of the FBI to assist the U.S. - funded and trained Salvadoran Special Investigative Unit (SIU). As you know, the SIU developed the forensic evidence that led to the arrest and charging of army officers and enlisted men for the crime. The SIU's investigation has been reviewed by experts from the United States and other countries and judged to be highly professional and thorough. The FBI continues to provide technical assistance.

Great Britain, Spain and Canada consulted with the Salvadoran Government as to the most appropriate and effective type of assistance they might offer. I understand that Spain and Scotland Yard each sent a team of detectives to review the SIU's progress and apparently were satisfied with the results, to date. I do not believe that anyone feels that an additional, parallel investigation is required. Indeed, it is not clear that under Salvadoran law the results of an independent inquiry could be introduced into the judicial process or assist in prosecution.

The SIU investigation continues, with the focus now on the question of the possible involvement of other officers in ordering the killings or participating in a cover-up. In addition, the judge in charge of the case may decide that additional investigation is required and would so direct the SIU.

TREATMENT OF ACCUSED IN JESUIT CASE

Question. It is my understanding that the 4 officers and enlisted men indicted for the murders of the Jesuits are being held in military installations rather than prison.

Is this an example of special treatment, normal procedure, or both?

Answer. The four officers and four enlisted men charged with the murders are being held at the National Police headquarters in San Salvador. (A ninth soldier also charged deserted in December and is being sought.) There are no military prison facilities in El Salvador and Salvadoran authorities cannot consign the accused to the main prison out of concern that other prisoners, including suspected FMLN guerrillas, will pose a threat to the lives of the accused. Therefore the accused are occupying separate quarters at police headquarters, in keeping with normal Salvadoran policy regarding military prisoners.

What has been exceptional about the treatment afforded Col. Benavides is the freedom of movement he has enjoyed on weekends. Secretary Baker has called President Cristiani to vigorously protest this situation as unacceptable.

DEATH SQUAD ACTIVITY

Question. According to my calculations, this means that close to 360 people may have died last year as a result of death squad activity.

Is this an acceptable number to the Bush Administration? How many indictments have resulted from these deaths? How involved has our Embassy been in these investigations?

Answer. A single act of political violence is unacceptable and cause for concern and action. At the same time, it is important to appreciate the reduction in the level of political violence over the past ten years. According to Embassy statistics, confirmed political killings averaged 750 per month in 1980, as compared to 14 per month in 1989.

The majority of the political killings you mentioned, as well as the "suspicious" killings, were committed by the ultraleft. These included the assassinations of two government ministers, nine mayors, one army officer, the daughter of an army officer, and three conservative intellectuals, and others opposed to the FMLN. Few of these crimes have been adequately investigated, and the guerrillas who committed them remain at large. One of the three-man death squad which assassinated the former president of the Supreme Court in December has admitted membership in the FMLN and has been indicted.

Our Embassy is neither authorized nor equipped to investigate crimes in El Salvador. We monitor the Salvadoran investigations of killings of great import to us, like the SIU's investigation into the killing of the Jesuit priests.

SUPPLY OF WEAPONS TO THE FMLN

Question. Has the Bush Administration received any indication that the supply of weapons to the FMLN guerrillas has decreased or stopped? What steps have we taken to bring a halt to these shipments?

Answer. Circumstantial evidence indicates that the supply of weapons and ammunition to the FMLN from Cuba through Nicaragua continues unabated, and may have increased. The FMLN expended massive amounts of ammunition during the November offensive, but has continued to mount attacks against the ESAF since then.

The ESAF is concerned that Sandinista militants will attempt to push through as many munitions as possible to the Salvadoran

guerrillas before Mrs. Chamorro's inauguration in April. They have mounted an effort to interdict these shipments.

Our ability to bring these shipments to a halt is limited. The War Powers Act would prevent any direct interdiction effort.

HARASSMENT OF CHURCH WORKERS

Question. Various church groups in the United States have documented evidence of harassment against churches and church workers in El Salvador. This appears to be a widespread problem throughout El Salvador and also appears to be linked to the government and the military.

What role, if any, has our Embassy played in the country in investigating these activities and attempting to put a stop to them?

What formal protests or discussions has our government had with the Cristiani government about these incidents?

Answer. During the FMLN offensive in November, the Salvadoran Armed Forces raided and searched the facilities of a number of religious and humanitarian organizations. (Our Embassy in San Salvador learned of 25 such incidents.) The Salvadoran military were acting on information, some obtained from captured guerrillas, that these facilities were providing material assistance to the FMLN. Among those arrested were several American citizens to whom the Embassy provided consular assistance. The Embassy was also in frequent communication with church and humanitarian workers, often ascertaining the welfare and whereabouts of those detained.

These police actions gave rise to charges of persecution by the Salvadoran Government. We do not believe that the raids resulted from a government policy of intimidation but rather from security concerns, and the relatively small number of institutions affected bears this out. Nonetheless, we firmly believe that relief and religious workers should be permitted to fulfill their legitimate humanitarian mission. Secretary Baker wrote President Cristiani on this issue in December, underscoring the importance of assuring the well-being of the religious community and of safeguarding their civil and human rights. In addition, during President Cristiani's recent visit to the United States, senior Administration officials reiterated this point and our concern.

QUESTIONS SUBMITTED BY SENATOR ROBERT W. KASTEN, JR.

Question. Are you convinced that there are programs or sales ready to go so that we will see OPIC and Ex-Im Bank financed projects and Exports in Panama soon?

Answer. The Panamanian economy has suffered significantly during the past few years, including from a lack of sufficient investment and from the looting of the financial system by the Noriega regime. Businesses recognize that they must invest in order to rebuild their inventories and to modernize; the GOP knows it must invest in order to stimulate the economy and to rebuild the nation's infrastructure. At the same time, the government is letting foreign companies know that they are welcome -- and they are responding positively. Thus we expect that OPIC and Ex-Im Bank will quickly have substantial demand for their programs. In fact, after returning recently from an OPIC-led mission to Panama, 27 U.S. business executives announced their firm intention to invest $75 million and their plans to consider an additional $300 million in investments.

Commercial establishments did suffer considerable damage during the looting in December. However, we believe viable enterprises will obtain the financial resources necessary to prosper again. Aside from their own resources, these firms will be able to call upon their

suppliers and will have access to just over $5 million in credits from the first phase of our Panama package. In addition, the second phase will provide another direct credit line of $185 million for them. The second phase's $140 million for the public sector will, of course, also have a strong though indirect impact on the private sector. In the meantime, resources are also flowing back into the banking system, which certainly will be prepared to finance good proposals.

Question. I am concerned for businesses in Panama which suffered inventory loss and other damage in December. I understand that this was discussed over the weekend by Senator Leahy and leaders of the Panamanian Government, though we still hear from Panamanian business concerns that the proposed aid program is insufficient. What is your assessment?

Answer. We share your concern for the Panamanian businesses that suffered losses during the looting last December, especially since the private sector must be the primary stimulus for renewed growth. Although the damage was extensive, with the various estimates placing it above $300 million, businessmen are already rebuilding their operations. Not only are they drawing on their own resources and commercial credits, they have moved quickly to utilize the finances made available by the first phase of our assistance package. Taking into account these various sources, we believe the additional financing we are proposing for the private sector in the second phase of the assistance package will be sufficient. It is not, however, particularly generous. Thus, like the businessmen, we will be very concerned if Congress does not provide the funds we have requested.

Question. Please outline the major components of this ($500 million) supplemental, and detail for the subcommittee the aim of each and how it answers specific problems facing Panama.

Answer. The supplemental proposal has four sections designed to address Panama's principal concerns in both the public and the private sector.

The first section, set at $185 million, will provide financing and working capital to revitalize the private sector. This program recognizes that private initiative must play a major role in the economy's revival, but that the banking system lacks the funds necessary to extend sufficient credit, thanks in part to Noriega's manipulation of the central banking function to deplete liquidity from the banking system. With the infusion of money from this program, public confidence in its viability would rise substantially, and banking operations would be able to return to normal. Thus the economy would gain the investment resources it needs, commerce would function properly and employment would increase.

The second section, valued at $140 million, would provide investment funds for the public sector. Over the past several years, public investment has declined sharply (from $195 million in 1987 to $78 million in 1989), causing a marked deterioration in the country's hospitals, schools, roads, ports, power generation, and other infrastructure facilities. This part of the package would enable the government to expand maintenance and repair services. Not only would these operations improve the nation's economic infrastructure, they would help create many new jobs as well as making available essential savings for the poor. In addition, by linking the transfer of resources to government policy, we would provide a strong incentive for economic reform.

The third section, proposed at $130 million, would help the Panamanian Government pay its arrears with the International Financial Institutions (IFIs). Panama has already dedicated an equal amount from its own resources and will have to pay the $265 million due this year. By eliminating the arrears, Panama will become eligible to seek

new loans from the IFIs and to reschedule its bilateral arrears through the Paris Club. These were Panama's principal foreign sources of financing during the period 1985-87. By regaining access to these sources, Panama will be able again to obtain the investment capital it requires to rejuvenate its economy and to put its people back to work.

The fourth section, at $45 million, is designed to assist the Government of Panama with a number of important specific programs, and especially the training aspects of those programs, the activities include the restructuring of the government sector. The creation of a genuine civilian police force, the strengthening of the anti-narcotics program, the improvement of the administration of justice, and the expansion of environmental activities. Although the Panamanian Government has expressed its desire to undertake major programs in each of these areas, it lacks experienced personnel and financial resources. Our assistance will enable the GOP to pursue those goals efficiently and, in so doing, to create the conditions necessary for a stable democratic regime.

It should be emphasized that those programs are designed to provide a one-time "jump start" to the Panamanian economy to restore it to its previous, self-sustaining character. If we are toardy or provide insufficient funds, we could fail to achieve this effect and find ourselves facing a need for additional substance aid flaws in future years.

Question. How much money do you anticipate will come from the MDBs into Panama as a result of this program?

Answer. We cannot predict precisely how much money will flow from the IFIs to Panama as a result of this program. However, these institutions provided the majority of Panama's foreign credits immediately before the crisis began in 1987. They assure us that they are prepared to resume their lending operations as soon as Panama becomes current in its payments. The actual timing and level of new loans will depend heavily upon how quickly Panama adopts the necessary macro-economic policy decisions, and presents its development plans to the IFIs. We are optimistic that Panama, which fully realizes its need for external financing, will organize and present its programs promptly, permitting a substantial flow of funds this year.

The GOP has told us that its objective is to reestablish its traditional relationships with those organizations and thus avoid a continuing need to depend on us assistance in future years.

Question. Would you give the Subcommittee an enumeration of those trade programs.

Answer. Since 1988, Panama has been denied access to several beneficial trade programs. With the removal of General Noriega, Panama again has access to these programs and should benefit substantially. The following describes the principal programs that can be quickly exploited.

Under the generalized system of preferences (GSP) and the Caribbean Basin Initiative (CBI), most Panamanian products will be able to enter the U.S. duty-free. These two programs were suspended in April 1988. Prior to then, some $22 million of Panamanian goods per year entered the U.S. market duty-free either under GSP or CBI. The Presidential proclamation restoring these benefits was published in the Federal Register on March 2, 1990. It goes into effect on March 17. With the restoration of eligibility, U.S. and other businesses will be encouraged to invest in Panama and the country's exports under the two programs should rapidly rise to at least the pre-1987 levels.

Panama's sugar quota was suspended under provisions of the Narcotics Control Trade Act and the Foreign Operations Act. With the reopening of our market, Panama will be able to export up to 30,798

metric tons of sugar to the U.S. Depending on market prices, these exports should be worth in excess of $13 million.

A quota on men's cotton trousers from Panama was rescinded in January. Panama is now able to export virtually all categories of apparel to the United States without quantitative restriction.

Question. I understand that all Central American countries have recognized the Endara Government, but that many Caribbean and South American countries have not. What are we doing to get these governments to recognize the Endara Government?

Answer. We have been actively-encouraging other countries to recognize the Endara Government: As of March 7, 41 States had explicitly recognized the Endara Government and seven more were awaiting an official act to confirm recognition.

With the March 1 installation of the national assembly in Panama and the announcement by President Endara that several constitutional amendments would be placed before a National Plebiscite, Ecuador and several group of seven countries, including Venezuela, Colombia, Peru and Argentina, decided to recognize the Endara Government and to send Ambassadors to Panama. Bolivia, Brazil, Chile, Mexico and Uruguay have not yet decided when to resume relations at the Ambassadorial level. Some countries follow the Estrada doctrine of recognizing states and not governments.

Question. Do we have any concrete assurances yet from other countries that they are willing to help Panama?

Answer. Several countries have expressed a willingness to help, but they have not defined the volume or form of their assistance. They are not prepared to give a commitment until Panama has reached at least a tentative agreement with the IMF, the U.S. is prepared to state what specific aid it will provide, and a support group is convened. We expect these conditions to be met by the summer if Congress approves our aid request in the next few weeks.

Question. INRENARE and the Smithsonian's Tropical Research Institute in Panama requested a loan of equipment to assist the forest agency to protect a few high priority forest areas for the next three months. Is the requested equipment presently located in Panama?

Whether or not you and/or the Department of Defense presently have the necessary authority to transfer it to the Smithsonian?

How soon could you respond to the Smithsonian's request, understanding that every day counts in the race to save thousands of acres of valuable tropical rain forest?

Answer. The Department of Defense is currently looking into these matters.

Question. We are concerned about the lack of attention to the environment and natural resources in the overall aid package to Panama. To what extent has your staff yet consulted with knowledgeable experts, both Panamanian and American, on the critical environmental and natural resources problems in Panama?

Answer. I would like to address the misperception that the administration's supplemental appropriation request for Panama does not include funds for environmental purposes. Environmental issues in Panama, and particularly those involving the canal watershed, are of vital interest to this administration. I agree completely with your assessment that to ignore the already large, and potentially devastating, environmental problems facing Panama today would be a recipe for disaster.

In order to help Panama meet its environmental needs, the $500

million supplemental appropriation requested by the administration includes a $45 million fund for development of government institutions. Part of this money (e.g., $10 million) would be used to help deal with environmental protection and natural resource management, with special attention to the protection of the panama canal watershed.

State Department officials in washington have discussed environmental issues in the post-Noriega era with a number of interested parties. These include, but are not limited to, people from the Smithsonian in Washington and the Smithsonian Tropical Research Institute in Panama, The Nature Conservancy, the U.S. Geological Survey, the Environmental Protection Agency, Los Alamos National Labs, the Panamanian Environmental Organization ANCON, Partners of the Americas and Others. In Panama, U.S. officials continues to consult very closely with various governmental and non-governmental organizations on these matters.

In addition, the administration is taking the necessary steps to reconvene the Joint Commission on the Environment, a bilateral U.S.-Panama Committee of Presidentially-appointed officials who meet periodically to discuss environmental issues in Panama.

Question. Can you assure us that you will instruct your staff to consult with experts on the environmental situation in Panama, in order to include programs to address their highest priorities in this aid package?

Answer. I can assure you that I will instruct my staff to continue such discussions.

QUESTIONS SUBMITTED BY SENATOR MARK O. HATFIELD

EL SALVADOR: ALLOCATION OF U.S. ASSISTANCE

Question. It is my sense that Congress lies offered some clear directives with regard to increasing expenditures to address the root causes of the civil war, yet little has been done to alter our aid Program. In a report I commissioned three years ago, entitled "Bankrolling Failure" it was recommended that the U.S. should alter the ratio of providing three times as much assistance to El Salvador for war-related activities as we do on programs to provide clean water, nutrition, health care and education.

The Administration's strategy, with emphasizes cash support rather than aid to the poor, has not changed. Given that the standard of living in El Salvador continues to plunge, can you explain why our assistance program has not been changed?

Answer. Total economic aid to El Salvador between 1980 and 1989 was some three times the military assistance level. Moreover, given the needs of El Salvador, and especially its poor, I believe we have struck an appropriate balance in allocating economic assistance between programs directly targeted at the poor and other economic assistance, which also benefits them.

Our programs have had significant achievements, despite the fact that they have had to be conducted in a war environment. For example:

- Our support for the agrarian reform helped a process in which 23 of the nation's arable land was transfered to formerly landless peasants. The reform benefited over 525,000 persons (beneficiaries and their families), or about one-fifth of tie rural poor.

- The $48 million Health System Support Project is strengthening the capability of the Ministry of Health to deliver and support basic health services, including

preventative and primary care services important to tie Ministry's child survival program. This program has contributed to a decline in infant mortality from 55 per 1,000 live births in 1985 to 50 in 1988.

- o The $37.6 million Education Systems Revitalization project has resulted in:
  - construction/reconstruction of 2,800 primary school classrooms which accommodate some 200,001 children;
  - dissemination of over 4 million textbooks;
  - training of over 2,000 teachers and regional directors;
  - establishment of a national school maintenance system in which teachers, students, and community members participate. To date, the project has provided tool kits and training to 2,390 communities.
- o Other activities that do not solely target the poor also benefit them directly through the protection and generation of jobs. These include balance of payments assistance and programs aimed at non-traditional export development. The export development programs, for example, generated some 13,000 jobs between 1986 and 1989.
- o New project starts are also geared to assisting the poor.
  - Last year, with the initiation of the new Public Services Improvement project, a new rural water and sanitation program was begun. During the life of the project, activities will benefit some 600,000 rural poor. In addition, the project is providing repair and reconstruction of rural roads that are critical to small farmers.
  - In FY 1990, new initiatives are planned in the areas of maternal/child health and assistance to microenterprises. The highest-priority new start for this year is the Education Quality Enhancement project, and expand into curricula improvement and other educational materials development.
- o P.L. 480 Title I and ESF Balance-of-payments cash transfer assistance generate local currency equivalent to the dollar value of assistance. This local currency is programmed by the Government of El Salvador and A.I.D. for development purposes, including programs targeted at improving the well-being of the poorer segments of the population. These resources do not appear in dollar assistance tables, but make an important additional contribution to programs addressing the needs of the poor.
- o Finally, in allocating economic assistance resources, we have had to consider that El Salvador's absorptive capacity for project assistance is already strained.

MILITARY ACTIONS AGAINST CHURCHES

Question. On January 24th of this year, you testified before a House committee that "the vast majority of church people and humanitarian workers in El Salvador...have said nothing has happened to them...they haven't been bothered."

This statement sharply contradicts the dozens of reports by

humanitarian groups, human rights observer groups, and churches. According to the information I have received, humanitarian and church workers were targets of army and police violence and repression during the FMLN offensive. The murder of the six Jesuits and two women certainly remains the most notorious and heinous act, but the list of activities against these groups represents widespread repression.

It is my understanding that President Cristiani has pledged to end the violence against these organizations. But given that the repression and brutality was inflicted by the armed forces, can you identify any means of pressure the U.S. is bringing to bear on the military?

Answer. As I have said before, we do not believe that the Salvadoran Government or the Salvadoran Armed Forces has a policy of repression against church and humanitarian workers. The raids and searches carried out during the bloody FMLN offensive in November appear to have been the result of concern for public security, and not an attempt to intimidate church and relief organizations. Since the end of the offensive and the issuance of President Cristiani's order requiring his or the Chief of Staff's authorization for such raids, I believe they have virtually stopped.

With respect to the larger issue of the military's observance of human rights, we continue to make this a major focus of our policy toward El Salvador. We can point to signs of the military's increasing accountability to the rule of law. In October an army lieutenant was sentenced to 30 years imprisonment for the murder of three men. In the San Sebastian case a major, a lieutenant, and seven enlisted men are about to go to trial for the murders of 10 civilians. In the Jesuit case, a colonel, three lieutenants, and four enlisted men are under arrest while the judge prepares the case for trial. The most effective deterrent to such crimes is the swift and sure prosecution and conviction of the guilty.

SUBCOMMITTEE RECESS

Senator LEAHY. The subcommittee will stand in recess until 10 a.m., on Thursday, March 1, when we will hear from the Bureau of Refugee Programs.

[Whereupon, at 12:30 p.m., Thursday, February 8, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, March 1.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

THURSDAY, MARCH 1, 1990

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:04 a.m., in room SD-116, Dirksen Senate Office Building, Hon. Patrick Leahy (chairman) presiding.
Present: Senators Leahy, Kasten, and Hatfield.

DEPARTMENT OF STATE

BUREAU OF REFUGEE PROGRAMS

STATEMENT OF HON. JEWEL S. LAFONTANT, U.S. COORDINATOR FOR REFUGEE AFFAIRS

ACCOMPANIED BY:

HON. PRINCETON LYMAN, DIRECTOR, BUREAU FOR REFUGEE PROGRAMS
JOSEPH WINDER, ASSOCIATE COORDINATOR FOR REFUGEE AFFAIRS
ROBERT FUNSETH, SENIOR DEPUTY ASSISTANT SECRETARY FOR REFUGEE PROGRAMS
DAVID WALKER, DIRECTOR, OFFICE OF REGIONAL AFFAIRS, EAST ASIA AND THE PACIFIC BUREAU

Senator LEAHY. The committee will come to order. This is the first of two hearings on refugees scheduled for this year in the Foreign Operations Subcommittee. I do want to thank my good friend, the senior Senator from Oregon, Mark Hatfield, who requested this hearing be held. I thank him because he deserves great credit for all that he has done to remind us of our responsibility to Indochinese refugees, and if some of the rest of us slack off at any time in the consideration of that, we would know that the door will open and Senator Hatfield would be there and tell us to get back to what is most important.

I have, unfortunately, one of those days with irreconcilable conflicts, and so I can stay only briefly. But Senator Hatfield and other subcommittee members will carry on with questions and discussion.

We also have a hearing now tentatively scheduled for May 8 on the global refugee crisis, and this will also be one of the topics of a hearing, still to be scheduled, on the supplemental appropriation.

But we will focus today on Indochinese refugees, particularly the crisis facing 43,000 Vietnamese boat people in Hong Kong. The

forced repatriation of these people is of great concern to me, to Senator Hatfield and other members, and also to the administration.

I also want to welcome Congressman Chet Atkins, who has just returned from Southeast Asia, where he got a firsthand look at the refugee situation there. After any opening statement from Senator Hatfield, we will hear from Congressman Atkins.

He, at least from our point of view from Vermont, represents one of the Southern States, Massachusetts. As soon as you get 10 miles from the Canadian border, we consider everything else south, Chet.

Our first panel of witnesses after that will be Jewel Lafontant, the U.S. Coordinator for Refugees, and Princeton Lyman, Assistant Secretary for Refugee Programs. We are glad to have both of you here today.

Then we will have an outside panel of experts on refugee issues.

First I yield to my good friend Senator Hatfield, and then we will hear from Congressman Atkins.

STATEMENT OF SENATOR HATFIELD

Senator HATFIELD. First, Mr. Chairman, I would like to express my deep appreciation to you for calling this hearing. Whenever there is a call for compassion, Senator Leahy has been on the support side in his willingness to lend his prestige and position to raising concerns about, not just refugees, but people in our own country who have needs and whose needs call for understanding and compassion.

I thank Senator Kasten, the ranking member of this committee, for his interest and leadership as well.

Mr. Chairman, over the years we have had the privilege of working together on this subject with concerned groups like the U.S. Committee for Refugees, Refugees International, and the Indochina Resource Action Center, along with current and previous administrations, to give voice to the needs of the refugees.

I suppose anyone who works in this field for any length of time begins to feel a little like Sisyphus in Greek mythology, who spent most of his life pushing a rock up a hill. Every time we make a little bit of progress in one area of the world, the refugee situation in another area of the world seems to get worse.

We often go from crisis to crisis, from emergency to emergency, almost always addressing the symptoms rather than the causes.

Now we are faced with a burgeoning crisis in Southeast Asia, an area of the world for which I believe we have a very particular responsibility. The comprehensive plan of action [CPA], which provides for the humane treatment of asylum seekers in Southeast Asia, is in serious danger of collapse or at least breakdown.

Hundreds of thousands of lives hang in the balance, and forced repatriation has occurred. Boats have been pushed off, and the screening of asylum seekers is far from fair. While I understand the constraints that Hong Kong, Malaysia, and other first asylum countries are under, and indeed laud them for their humanitarian response to many desperate human needs, I absolutely deplore forced repatriation, push-offs, and any other actions which could

jeopardize the comprehensive plan of action in first asylum, Southeast Asia.

That these actions are supported or even tolerated by any government is outrageous. We like to think of our Anglo-Saxon heritage as bringing a special dimension of understanding for the needs of people, but at this point I hang my head in shame. And that shame includes, Mr. Chairman, responses from Mrs. Thatcher and the British Ambassador to the United States in their lame effort to try to justify the forced repatriation. I would like to include these letters in the record.

I would also like to include a response from Bishop Browning of the American Episcopal Church, and commend at this time the action taken by the Archbishop of Canterbury following our appeal to him.

I would also like to include some of the more enlightened responses from members of the British Parliament, who have held the same viewpoint as we of outrage about what happened in Hong Kong, contrary to the position of their government.

Senator LEAHY. Without objection, all these items will be made part of the record.

[The information follows:]

LETTER FROM SENATOR MARK O. HATFIELD

U.S. SENATE,
Washington, DC, December 15, 1989.

Mr. BERNARD WEATHERILL, MP,
Speaker of the House of Commons,
London, England.

DEAR MR. SPEAKER: As you debate the propriety of forcibly returning Vietnamese refugees to Vietnam, I wanted to share some of my thoughts with you.

For those of us of common faith, I think we would agree that forcible repatriation of refugees back to Vietnam is morally wrong. I believe that, as Christians, we cannot sanction forced repatriation and we cannot turn a deaf ear to those who have risked their lives to escape one of the most repressive societies in the world. There are certainly many issues upon which persons of faith differ and which merit legitimate debate. Forcible repatriation, however, is not such an issue.

I do not minimize the burden Hong Kong faces nor do I disparage the humanitarian commitment your Government has exhibited in the past. Forced repatriation, however, is wrong—no matter what government practices it.

I pledge to work with you to solve the crisis in Hong Kong. I believe that there are many measures, short of forced repatriation, that our governments and the rest of the international community can undertake to ease the plight of the boat people as well as the burden faced by Hong Kong residents. I will urge my government to put forth and institute such measures.

My thoughts and prayers are with you as you consider this difficult issue. Incidentally, you and I have a mutual friend in Doug Coe.

Sincerely,

MARK O. HATFIELD,
U.S. Senator.

LETTER FROM C.D. POWELL, PRIVATE SECRETARY

LONDON, ENGLAND, *January 20, 1990.*

Hon. MARK O. HATFIELD,
U.S. Senate,
Washington, DC.

DEAR SENATOR: The Prime Minister has asked me to thank you for your telegram of 12 December about the British Government's decision to repatriate Vietnamese people from Hong Kong

On 12 December, 51 Vietnamese people were repatriated from Hong Kong to Hanoi. They flew to Vietnam on an aircraft chartered from Cathay Pacific and were escorted by Hong Kong officials. Troops were not used nor were the escorts armed. The arrangements were similar to methods used elsewhere in the world to return illegal immigrants to their country of origin, for example the procedures used by your country.

The Vietnamese Government have undertaken that those repatriated will not be punished for having left Vietnam. Arrangements have also been made to monitor those who have returned to ensure that they are not ill-treated. Former ministers from both Labour and Conservative parties—Lord Ennals and Mr. Timothy Raison—visited Vietnam from 7–11 January and have issued their report on the conditions of the first group of people who were repatriated. They were given good access to those they wanted to see. All those they talked to accepted that they were not refugees; in every case they explained their reasons for leaving Vietnam as economic rather than political. After completing the screening process in Hong Kong, all of the nonvolunteers understood that there was no alternative but to return to Vietnam. Lord Ennals and Mr. Raison found no evidence that force was used in the repatriation. Nor did they find evidence of persecution or official harassment of nonvolunteers—or volunteers—after their return to Vietnam. The report made a number of recommendations which we are studying carefully and aim to implement as quickly as possible.

No refugee has been or will be repatriated. All Vietnamese people who claim asylum in Hong Kong have their cases examined carefully to see whether they qualify for refugee status under the terms of the 1951 U.N. Convention and the 1967 Protocol Relating to the Status of Refugees.

Screening is monitored by the U.N. High Commissioner for Refugees, whose staff have access to all interviews and case files and to whom asylum seekers refused refugee status may appeal. Those who have been repatriated were people who had gone through all the stages of this screening process, including the appeal procedure, and were found not to be refugees.

All countries examine critically the claims of asylum seekers, to determine who is a genuine refugee and who is not. In many parts of the world, people from poor countries are seeking to migrate to richer countries. Their motives are understandable—a more prosperous life for themselves and their families. But that does not mean that they are refugees. This is the position with most of the 57,000 Vietnamese people now in Hong Kong, of whom almost 34,000 arrived during 1989. Although the screening process, because it is thorough, will take many months to complete, present trends indicate that about 40,000 of those Vietnamese people in Hong Kong will not qualify for refugee status. They are people, mostly from north Vietnam, seeking a better life overseas. They are not people connected with the old South Vietnamese regime or who have some other well-founded fear of persecution.

There are now under 12,000 Vietnamese in Hong Kong who have been accepted as refugees. There is an international agreement that all of these people will be resettled elsewhere in the world. They will not be returned to Vietnam against their will. The international community has agreed that the distinction between those who are refugees and those who are not should be maintained. Last June, the International Conference on IndoChinese Refugees agreed that the only course was for the latter to return to Vietnam. This was agreed unanimously by all participants including the United States of America and the United Nations High Commissioner for Refugees. It is clear that not all the nonrefugees will volunteer to return. Of those so far screened out, fewer than 1 percent have volunteered to return home.

We cannot let this problem continue unresolved. Last year about 34,000 Vietnamese arrived in Hong Kong and there is a serious possibility of at least as many more thousands arriving this year. The world will not resettle those who are not refugees. Hong Kong is small and already overcrowded. The choice is therefore between repatriation or indefinite confinement or steadily larger numbers of people in camps. Repatriation is the better solution.

Yours sincerely,

C.D. POWELL

LETTER FROM AMBASSADOR ANTONY ACLAND

BRITISH EMBASSY,
Washington, DC, December 12, 1989.

Hon. MARK O. HATFIELD,
Senate Hart Office Building,
Washington DC.

DEAR SENATOR HATFIELD: Thank you for your letter of 7 November. I am writing to explain to you personally the background to the Hong Kong Government's decision to start repatriating illegal Vietnamese immigrants in Hong Kong.

As I am sure you are aware, Hong Kong has provided first asylum for Vietnamese Boat People since 1979 and continues to do so. There are now nearly 57,000 asylum seekers in Hong Kong, a territory with a population of 5.7 million and a land mass of less than 400 square miles. Nearly 34,000 arrived in 1989. Over the Years, the United States has been especially generous in taking in South Vietnamese. But 90 percent of Boat People now arriving in Hong Kong come from the north. They mostly wish to come to the United States. But the U.S. administration has made clear that they are not eligible under current guidelines. International efforts to resettle them elsewhere over many years have produced only meagre results.

Since June 1988, all Boat People arriving in Hong Kong have been screened to determine whether the qualify for resettlement as refugees. The system of screening is sophisticated, elaborate and thorough. It is based on the handbook on procedures and criteria set out in the 1951 Convention and the 1967 Protocol relating to the status of refugees. The screening procedures, including the questionnaire, were developed in cooperation with the United Nations High Commissioner for Refugees. All interviews can be monitored by UNHCR staff. There is a full appeals process, the result of which the UNHCR have a right to review and to make the final decision.

Screening was endorsed by the International Conference on Indo-Chinese Refugees [ICIR] in Geneva in June 1989. As a result, screening has been introduced in all places of first asylum in Southeast Asia based on the procedures originally established in Hong Kong. Of over 7,000 Boat People who have been screened to date in Hong Kong, appeals have been considered in the case of over 4,000. A total of 818 have been found, after appeal, to qualify as genuine refugees. There is no question of returning these to Vietnam: they will be resettled as soon as places can be found. In addition, it was agreed that all those who arrived before the introduction of screening would be resettled within three years in a major camp-clearance exercise.

In addition to this resettlement effort, UNHCR, as you may know, has prepared a feasibility study for expanding the Refugee Processing Centre in Bataan in the Philippines, to handle those awaiting resettlement. We support the phased extension of these facilities which, if quickly realised, could help to reduce the pressures on space in Hong Kong, and enable the authorities to improve the conditions in which people are held.

The presence of so many Boat People constitutes an enormous burden for Hong Kong. The Hong Kong Government has devoted very considerable resources to coping with this problem. But the prospect of another large influx during the next sailing season, which begins in February, made the decision to start repatriating the screened-out inevitable.

The Geneva Conference also agreed, in accordance with long-standing international practice, that all those deemed not to be refugees should return to their country of origin. In accordance with the Comprehensive Plan of Action, we have done all we can to persuade these people to volunteer to return. So far, over 600 people have returned voluntarily. But most of these chose to go without having undergone screening. Of the 3,800 who have been definitively screened out, only 27 have so far volunteered. It remains our hope that more and more Boat People will volunteer to return. Indeed Vietnam recently agreed a faster rate of return. But our conclusion is that voluntary repatriation alone cannot provide an adequate solution. The Hong Kong Government has therefore decided to start repatriating those who are screened out, whether or not they have volunteered. As nonrefugees, they have no prospect of settlement in the West. By the same token, it would not be humanitarian to house them semipermanently in the small and overcrowded territory of Hong Kong. Their future can only lie in their own country.

Before proceeding with the decision, the British and Hong Kong Governments secured assurances from the Vietnamese Government that those who return will be treated humanely and not punished for having left clandestinely. The Vietnamese Government accepted that the UNHCR should monitor the conditions of all who return, to ensure that all is well. We very much hope that the UNHCR will agree to

extend their current arrangements for monitoring voluntary returnees to all those who return, as they do in the case of Laos. Nobody will be returned to Vietnam unless the British authorities are satisfied that they will be properly treated. Returnees will receive reintegration assistance to help them rebuild their lives in Vietnam. Pending The agreement of the UNHCR, two distinguished British MP's will visit Vietnam in January to see for themselves the measures which the authorities are taking to reintegrate those who return into Vietnamese society.

Yours sincerely,

ANTONY ACLAND.

LETTER FROM HON. PETER ARCHER, M.P.

HOUSE OF COMMONS,
London, England, January 22, 1990.

Senator MARK O. HATFIELD,
U.S. Senate,
Washington, DC.

DEAR MR. HATFIELD: Many thanks for your letter. It was good of you to share your thoughts with Christians in this country. I agree that the British Government showed a total lack of compassion in its approach to the problem of refugees in Hong Kong.

I agree, too, that there is a great deal which the international city can do to assist, and a government in this country which approached the matter from an unselfish standpoint could speak with moral authority on the issue. The Thatcher Government has missed a great opportunity to call for international action.

Many thanks for writing. It is helpful to know the reactions of fellow Christians in other parts of the world.

Yours sincerely,

L.H. GRIFFIN,
(Dictated by Peter Archer and
signed in his absence.)

LETTER FROM HON. HARRY GREENWAY, M.P.

HOUSE OF COMMONS,
London, England, December 20, 1989.

Senator MARK O. HATFIELD,
U.S. Senate,
Washington, DC.

DEAR SENATOR HATFIELD: Thank you very much for your letter of December 15th and for your comments about Vietnamese refugees in Hong Kong. I rather sympathise with what you say, but fear I must tell that I believe that the United States has just as great a responsibility to take the refugees in question as ourselves or any one else. I hope you will be able to join us in putting this whole issue on to the conscience of the world. It cannot just be for the United Kingdom to solve.

Your prayers and thoughts are much appreciated and I shall be doing the same for you.

Kind regards.

Yours sincerely,

HARRY GREENWAY,
Member of Parliament

LETTER FROM HON. DEREK FOSTER, M.P., OPPOSITION CHIEF WHIP

HOUSE OF COMMONS,
London, England, December 23, 1989.

Senator MARK O. HATFIELD,
U.S. Senate,
Washington, DC.

DEAR SENATOR HATFIELD: Thank you for your letter of 15th December. I and my Parliamentary Labour Party colleagues share your views and have voted accordingly.

Yours sincerely,

DEREK FOSTER.
Member of Parliament.

LETTER FROM ROBERT ———

LONDON, ENGLAND, *December 19, 1989.*

Senator MARK O. HATFIELD,
U.S. Senate,
Washington, DC.

DEAR SENATOR HATFIELD: I am grateful for your letter of December 14th. I am, as you have indicated, very much aware of the anguished predicament of the Vietnamese Boat People in Hong Kong. I have been in correspondence with the Foreign Secretary of the UK, and expressed my distress at the cruel realities of the situation. I very much share the views expressed in the enclosed editorial from The Financial Times of December 13th.

As you rightly say, this is clearly a moral issue, and like all moral issues, it can only be worked out within the constraints of what is practicable. I enclose a copy of a comment I gave yesterday to the Press, and in writing to you I should say directly that I believe the isolation of Vietnam must largely be laid at the door of the United States.

You can be assured that I remain very concerned. But I believe that responsibility for a more acceptable alternative to forced repatriation must to some extent depend upon an international response.

Yours sincerely,

ROBERT ———.

LETTER FROM THE MOST REVEREND EDMOND BROWNING

THE EPISCOPAL CHURCH CENTER,
New York, NY, January 4, 1990.

Senator MARK O. HATFIELD,
U.S. Senate,
Washington, DC.

DEAR SENATOR HATFIELD: Thank you for your letter of December 14, 1989 about the repatriation of Vietnamese boat people from Hong Kong. It is gratifying to find our elected officials sharing such concern over this basic violation of human rights.

The Episcopal Church has consistently spoken out on moral issues affecting refugees. We have sought to alleviate the suffering of the Vietnamese fleeing their country and have made strong efforts to seek resolution to the many aspects of this ongoing international problem. Episcopal Migration Ministries, a unit here at the Church Center, has provided leadership in these matters both within our church and at large in the Anglican Communion. We believe the questions which desperately need addressing adequately include whether or not the screening process is just and where additional resources can be found in support of voluntary repatriation programs for those who are screened out from the official classification of refugee. The full Comprehensive Plan of Action should be implemented immediately. Certainly a moratorium on any further deportations is essential to allow for such assessment and planning.

Enclosed is a copy of a letter suggesting these and other actions to Prime Minister Margaret Thatcher to which the Episcopal Church was a signatory. I have also enclosed a copy of the resolution passed by General Convention of the Episcopal Church in July of 1988.

We recommend that the United States Government could help ease the situation by providing accommodation in the Bataan Refugee Processing Center to the 12,000 Vietnamese who arrived before the cut off date of January 1, 1988. Additionally, the process for interviewing and the processing of long-stayers might be hastened so that both are completed in two (2) rather than three (3) years.

Marion M. Dawson, the Executive Director of Episcopal Migration Ministries, talked early last month in London with the Secretary General of the Anglican Consultative Council and the Assistant to the Archbishop of Canterbury, both of whom agreed with our concerns about the Hong Kong situation. She has also been in communication with The Rt. Rev. Peter Kwong of the Anglican Diocese of Hong Kong and Macao, who has been providing the Episcopal Church and other members of the Anglican Communion with an objective assessment of the treatment of the detainees in the Hong Kong camps. Bishop Kwong has expressed his hope that the international community will provide the needed support to Vietnam and Hong Kong, most specifically through increased resettlement ceilings.

Other members of the Anglican Refugee and Migrant Ministries Network have been similarly involved in promoting British fairhandedness and in seeking international resolution to this situation, most particularly our colleague in Australia, The Rev. Helen Hunter, who has rallied both church leadership and government leaders in that country.

The Episcopal Church is pleased to be a major participant in the current Womens Commission on Refugee Women and Children's visit to the camps in Hong Kong this month. We are represented by a member of the EMM Advisory Council, Diana Bui, who is fluent in Vietnamese and our Canadian colleague Kathleen Ptolemy, Director of the Refugee Program for the Anglican Church of Canada, in order to ensure the broadest possible coverage and involvement by church leaders.

Please be assured of the Church's continued commitment to support national and international efforts to accord Vietnamese fleeing their country just and humane treatment and to prevent refoulement of refugees seeking asylum.

Faithfully yours,

EDMOND BROWNING,
Presiding Bishop.

LETTER FROM THE AMERICAN COUNCIL FOR VOLUNTARY INTERNATIONAL ACTION—INTERACTION

NEW YORK, NY, *December 20, 1989.*

DEAR MRS. THATCHER: The undersigned private voluntary agencies have resettled over 800,000 Indochinese refugees in the United States since 1975. We are deeply distressed by the action taken by your government in the forced repatriation of 51 Vietnamese asylum seekers in Hong Kong, and implore you not to repeat this act of refoulement.

We would condemn this action in and of itself, but there are other considerations which make it even more deplorable and dangerous for other refugees.

The preservation of first asylum in Southeast Asia, as agreed to in the Comprehensive Plan of Action adopted this past summer in Geneva, is now in peril. Malaysia is already pushing boatloads of refugees back to sea, and Thailand threatens to do the same. Both can now cite your government's action as precedent.

There are over 1,000 asylum seekers in Hong Kong who have expressed an interest in voluntary repatriation. Given such numbers of volunteers with whom to effect an ejected return to Vietnam, there was really no need to return these 51 against their will.

While progress has been made in improving the screening for asylum seekers in Hong Kong, it is still deemed seriously flawed by most impartial observers. In addition, an equitable region-wide screening process for this region, as envisaged by the Comprehensive Plan of Action has yet to be put in place.

There are no safeguards or proper monitoring arrangements in Vietnam to assure the safe return of persons repatriated—voluntary or involuntary. Here again, the terms of the Comprehensive Plan of Action should be adhered to. In addition, the Vietnamese authorities, UNHCR and the President of the United States have all either protested this action or demanded it not be repeated. The Pope and the Archbishop of Canterbury have identified it as a grave humanitarian problem.

We recognize that there is a decline in resettlement opportunities for Vietnamese boat people, particularly in the United States, but also in the United Kingdom itself. We further acknowledge U.S. Government's policy of interdicting Haitian ref-

ugees at sea. please know that we have spoken out strongly against both of these policies and will continue to do so.

Our plea to you is very simple and basic. Do not return Vietnamese boat people to Vietnam against their will. We will work with you to attain a humane resolution to this problem, but will speak out forcefully against refoulement whenever it occurs.

Robert P. DeVecchi, chairman, Committee on Migration and Refugee Affairs; International Rescue Committee on behalf of: Wells Klein, American Council for Nationalities Service; Vojtecn Jerabek, American Fund for Czechoslovak Refugees; Dale de Haan, Church World Service; Marion M. Dawson, Episcopal Migration Ministries; Karl D. Zukerman, Hebrew Immigration Aid Society; Donald H. Larsen, Lutheran Immigration and Refugee Service; Msgr. Nicholas diMarzio, Migration and Refugee Services, Unites States Catholic Conference; Janusz Krzyzanowski, Polish American Immigration and Relief Committee; Leon O. Marion, Tolstoy Foundation.

[Resolution Passed by General Convention of the Episcopal Church, July 1988]

FINAL TEXT OF RESOLUTION

(D113s)

Resolved, the House of Bishops concurring, That the Presiding Bishop's Fund for World relief be urged to support humanitarian assistance and ministry to the Hong Kong refugee camps to help ease the pain of the residents; and be it further

Resolved, That the Executive Council be urged to facilitate service to refugees in Hong Kong by a Volunteer for Mission, or by other appropriate means; and be it further

Resolved, That the Episcopal Church's Washington Office communicate this Church's concern to the President of the United States, to the Secretary of State, to the Ambassador for Refugee Resettlement, specifically to the Chairs of the House and Senate Judiciary Committees, and to the Immigration and Refugee Subcommittees in the Congress; and be it further

Resolved, That the United States and Great Britain reconsider their *de facto* policy virtually to cease their resettlement in Hong Kong, and that they reassert their leadership in the family of nations by providing humanitarian assistance to victims of persecution from Vietnam and elsewhere; and be it further

Resolved, That the Episcopal Church request the Anglican Church in the Diocese of Hong Kong to call on the government of Hong Kong to reconsider its new policy and continue its generous assistance to refugees.

The Committee on National and International Affairs presented its Report No. 29 on House of Deputies Message No. 243 on Resolution B013s (Peace and justice fund) and moved concurrence.

The House concurred (Communicated to the House of Deputies in HB Message No. 343).

REFUGEES

Senator HATFIELD. We are here, Mr. Chairman, as always, to hear from others, rather than the members of the committee, and so I will bring my brief remarks to a close. Thank you again, and I express a very special appreciation for our colleague from Massachusetts. He has had a long record of supporting the needs of refugees, not just in words but in actions, taking the extended time required to go out on the battle scenes, so to speak, to bring us the benefit of his observations.

I treasure his role and I deeply respect and admire his dedication.

Senator LEAHY. I completely concur.

Congressman, please come and join us up here. I want to underscore what Senator Hatfield said. Not only have you had the concern for refugees, but you've also gone out there and seen the situation firsthand, and it's extremely valuable to all of us.

The floor is yours.

STATEMENT OF HON. CHET ATKINS

Mr. ATKINS. Thank you very much, Mr. Chairman, and thank you for permitting me to appear before your subcommittee this morning.

I want to be brief, as I know you have a number of excellent witnesses before you this morning. But I would be remiss if I did not express my appreciation to you, Mr. Chairman, for your very genuine and thoughtful interest and leadership in a problem as intractable and yet as tragic as the refugee situation in Southeast Asia.

I also consider it a privilege to spend a little time here this morning with Senator Hatfield. Together we have introduced a number of bills and resolutions pertaining to Indochinese refugees.

But I know that whatever successes we have had have been attributable to his wisdom, his knowledge, and the strength derived from his deeply held humanitarian principles. And it is indeed a privilege for me to appear before both of you and express my appreciation for your longstanding interest and leadership.

Mr. Chairman, I have just returned from Malaysia, where I spent my time engaged in onsite visits and meetings pertaining to the unending stream of refugees still pouring into first asylum countries in the region, and I wish I could bring you some good news.

But I am afraid I cannot, because I think at this point in the wake of the collapse of the CPA, the comprehensive plan of action, the talks in Geneva, the United States is faced with a very difficult and a very cruel dilemma.

After so many years of wrestling with the refugee problem in the area, 15 years of dilemma, it is hard to determine when we face a crisis. But I think today, as the weather patterns change and we shortly will see the breezes blowing to the north in the South China Sea, at that time of year when boat people tend to leave, that we are about to witness a tragedy of immense proportions.

Malaysia has embarked on a course and I am afraid that there is no importuning, there are no threats, there is no cajoling, there is no action that the United States can take, which will deter them from their course of action. The British are embarked on a similar course of action.

Mr. Chairman, I detest, and I echo your very eloquent statements about the British actions in Hong Kong. But it is a reality, and what we now face is a situation where there are in Malaysia pushoffs of the boats as they come in.

I am pleased to report to you that those pushoffs, to the extent that such things can be done with consideration, and it is an anomaly to think of that, that they are done with some consideration, that supplies are provided to people, they assure that the boats are seaworthy. But the pushoffs are occurring nevertheless.

What is about to happen is as the stream of boat people increases there will be more pushoffs. There will inevitably be tragedies of piracy, rape on the high seas, of murder, and tragedies of people drowning in their vessels as they try to find another port beyond the ports of Malaysia.

The United States I think has a choice. It is a tragic choice, but we can either maintain the moral high ground—and I detest and abhor the concept of forced repatriation; it goes against everything in international, it goes against every value and principle that we hold dear in this country, and particularly in your leadership on this issue, the things that you and we have stood for in the past. And I am afraid our choice is a Hobson's choice, that we can either maintain that moral high ground and say that we will never allow under any conditions forced repatriation and essentially become irrelevant to the argument and watch paralyzed and helpless as the tragedy occurs on the high seas, taking hundreds, thousands, perhaps tens of thousands of lives over the next several years, or we can reengage in the comprehensive plan of action.

Our reengagement, I am afraid, will have to come in the context of a willingness to accept some form of forced repatriation, and the use of our leverage that will be gained by our reengaging in those negotiations to ensure that forced repatriation is an absolute last resort, that there is a program which provides strong protections and guarantees, that there is a strong and meaningful screening process, that those people who meet the criteria as refugees are allowed to be resettled to third countries, that we maintain first asylum, we do not allow any pushoffs or pushbacks, and that we focus on allowing and encouraging voluntary repatriation first and, to the extent that repatriation occurs, that we have strong international guarantees and long-term protections for the human and the civil rights of the people who may be repatriated.

But I think that is our choice, and indeed it pains me greatly to have to advocate this course of action. It is one that I do not take lightly. I have fought and protested vigorously the inhumane and insane policies of the British in Hong Kong.

Conditions there—and I know you will subsequently be having hearings—are beyond belief and beyond imagination, how any civilized country could allow those kind of conditions to exist. But they do exist and, notwithstanding them, people continue to stream out in hopes of finding refuge in those deplorable conditions in Hong Kong.

I am afraid that you and all of us in the Congress and the U.S. Government have a difficult and an unpleasant choice to make on this issue. I wish it were otherwise, but I am afraid that those are the choices that exist before us.

I would be pleased to take any questions.

Senator HATFIELD. Go ahead, Mr. Chairman.

Senator LEAHY. No; I will turn it over to you. You have spent more time on this than I have. Except I just want to thank Chet again for coming here and for taking the time to go abroad to see the problem first hand.

Mr. ATKINS. I appreciate that, Mr. Chairman. I would tell you that, despite best efforts to portray Massachusetts as a Southern State, they were not successful.

Senator HATFIELD. Well, Congressman, you, not only in the information that you shared this morning and such, the obvious deep concern you have today has come through very loud and clear.

Let me ask you this particular question or make a comment, then ask you to make your comment. I think you are being very

realistic and I certainly would not fault any observations. Looking at the realistic world, as you say, how do you think we are going to bring to a halt from the cause factor in this whole picture, this kind of miserable and inhumane evolution that is occurring in this subject field we call refugees?

I have felt personally, just to sort of give you a little hint where I am coming from, that we have to deal with the factors that have created the circumstance; namely, the Vietnamese relationships that have been severed.

Some 2 years ago I visited Hanoi for the first time since my first visit to Hanoi as part of the United States Navy, when we were in alliance with Ho Chi Minh, we were cheering the Vietnamese flag of nationalism that flew over Hanoi City Hall, and had long conversations with government officials, including Le Duc Tho, one of the old lawyers.

We came back, Senator McClure and I, and made our report to the President and urged him to elevate the discussions going on at the lower level, technical, to try to bring this Vietnamese war to an end and the aftermath of the policies that we had followed, and including the role of trying to settle the MIA-POW problem, which is of course predicated—our relationship is predicated on that, as the beginning step to help work out a solution for Cambodia and go to the source of the refugees and start dealing with the reality.

Now, I think we can, you know, hold ourselves aloof from political contact and all that and, even though General Vessey was appointed to elevate those talks by President Reagan, for which I applaud him, I have a feeling from my understanding that those are pretty much on a stalemated level.

The Cambodia situation has deteriorated, and I am shocked when I hear Secretary Baker tell our committee that he could see a future government in which the Khmer Rouge were participants. I just under no circumstances can believe we really are serious about that.

So all those things are part of the mix I am coming from, and I just wanted to get your perspective on what you think from the cause level, what you think we could and should be doing to put these refugees behind us in terms of the cause that is creating them.

Mr. ATKINS. Mr. Chairman, I think you have identified the principal area where I think we could take constructive action. And the fact of the matter is our policy—and it has been an unprecedented policy in our history—of 15 years of total isolation of the Vietnamese has worked very, very effectively.

The Vietnamese economy is in ruins. The country is totally demoralized, and I am sure you had a sense from your visit to Hanoi of the kinds of conditions that existed. It is a bleak and a hopeless place.

Indeed, if you look at the profile of the refugees who are coming out and leaving and risking their lives on the boats, they tend to be, not all of them, but if you look at what are the principal characteristics of the sort of stereotypical person who might be coming out, he is between 15 generally and 35. Oftentimes a son or a grandson of somebody who was alive in the U.S. war effort, during the war, served some time in a reeducation camp.

And while they do not face serious persecution, which would make them candidates for U.S. refugee status, they do face significant discrimination because of their family histories. For them there is no hope and there is no future in Vietnam.

Some like to make the distinction between political and economic refugees. I am afraid that there really is not a clear line, and our law considers these people nonrefugees. Yet the situation is so brutal and so horrible for them, so utterly without hope, that they are willing to risk their lives on the high seas to go to conditions that are inhumane and beyond belief for us, in the hopes that perhaps maybe they will have a chance to settle in a third country.

Indeed, the only way to stop what has happened is that our embargo, our total embargo of the Vietnamese, our isolation of Vietnam, has caused them to hemorrhage their own people, and the hemorrhaging is increasing, it is not decreasing.

Now, the United States was able effectively some more than 1 month ago to block an IMF loan to the Vietnamese. They have met all the criteria that are established. They are trying to move, albeit slowly, to a market economy. The leaders in Hanoi are giving up, very slowly and only under extreme duress, the total hold and the authoritarian grip that they have had in the country.

There is considerable backsliding on things like the press law that was just passed, but inevitably that country has to join the rest of the world community, and events around the world are having an effect on their political structure.

I would have to tell you that if we want to avoid the moral dilemma that we face with the boat people, the only resolution is for some movement toward normalization of relations with Vietnam.

I think an important first step would be to allow the IMF loan. What that IMF loan would serve as is a catalyst for movement toward a free market economy, which will eventually put political pressures on the government to move to a more democratic, multiparty system.

I know it is not a popular point of view, but candidly the obstacles that our government has held out against normalization have for the most part been met. They said only when the Vietnamese withdraw their troops from Cambodia. They withdrew their troops. Then we changed that. We said, withdraw their troops within the context of a negotiated settlement.

What did that mean? That meant that the Vietnamese had to be willing to accept the Khmer Rouge as part of an interim administration. It is inconceivable to me that we would punish the Vietnamese for their unwillingness to accept the Khmer Rouge as part of an interim settlement.

Maybe I just do not get it, but I do not follow the logic for us. Then beyond that, the next step has been the POW-MIA issue.

Now, General Vessey's mission has been highly successful. General Vessey in his testimony before the Congress indicated that he had felt that he had complete cooperation from the Vietnamese. They are resolving in a very rapid fashion that situation.

The barriers to the resolution of the POW-MIA concerns are barriers that are primarily technical in terms of the difficulties of crash site excavations and so forth. They are not political in terms

of Vietnamese reluctance to participate in a resolution of the problem.

So they are doing the things that we want them to do, and the United States I think is just adding to the human tragedy and also delaying the day when you will see a genuine democratic government and a free-market system in Vietnam, and delaying the day we will see a settlement in Cambodia.

Senator HATFIELD. I agree with you.

Mr. ATKINS. Thank you, and I thank you for your courageous leadership on that issue.

Senator HATFIELD. Keep me inspired.

Senator Kasten, I yield to you, sir. I yield whatever role I am playing at the moment.

STATEMENT OF SENATOR KASTEN

Senator KASTEN. I am pleased that we have this opportunity to air our thoughts regarding the critical situation in Hong Kong, and the broader situation concerning Asian refugees.

There is a lot of confusion and a lot of underfunding and a lot of people turning the other way on this whole set of issues, which is what you suggest also, Congressman. What policy has been made and what progress has been made has been largely originated from our highly respected colleague and friend, Senator Hatfield.

He has provided firm and consistent leadership on refugee matters. He has helped this committee tremendously regarding first asylum and on piracy, human rights, health, and education issues.

His involvement has been total and he remains an example to all of us in this area.

So, Mr. Chairman, I have no questions of this witness, but I simply want to thank you for your leadership. And we in this subcommittee have got to do more in this area. It is a little bit like punching a balloon sometimes, but we must continue our work.

I thank and congratulate you for your leadership.

Senator HATFIELD. Senator, you are very generous, but none of these things could take on any meaning or move with any effectiveness without your very dedicated support. I am very grateful for that, too.

Even though you have certainly a schedule on the House side, you are certainly welcome to stay and be a part of our hearing.

Mr. ATKINS. Thank you very much. I unfortunately have obligations over there.

Senator HATFIELD. We will get a copy to you after the hearing.

Mr. ATKINS. Thank you. I greatly appreciate that.

Senator HATFIELD. If we can just settle the forestry problems. [Laughter.]

Mr. ATKINS. You will have my full cooperation, but not always agreement on that.

Senator HATFIELD. I delegate my role to Les AuCoin.

Ambassador Lafontant, we are happy to welcome you as the Coordinator for Refugee Policies in this Government, this administration, if you would like to come with whoever you would care to bring with you of your staff. We are grateful for your presence and look forward to your testimony.

If you would be so kind as to introduce your colleagues for the record.

Ambassador LAFONTANT. Thank you.

Senator HATFIELD. You may highlight or read your testimony, however you wish to proceed.

INTRODUCTION OF ASSOCIATES

Ambassador LAFONTANT. We would like to say good morning first.

Senator HATFIELD. Good morning.

Ambassador LAFONTANT. And to tell you it is always a pleasure to see you, and it has been quite some time. And we would like to join the throng of people who have been praising you for your outstanding leadership in this field. We certainly appreciate it.

I am certainly grateful for this opportunity to come before this committee to discuss the critical issues surrounding the refugee problems in Southeast Asia.

At the table with me is: to my right, Ambassador Princeton Lyman, Director of the Bureau for Refugee Programs.

Senator HATFIELD. Good morning, Mr. Ambassador.

Ambassador LAFONTANT. And to the left is my Associate Coordinator, Joseph Winder, who has spent a lot of time in Southeast Asia as a DCM prior to joining my office. And Robert Funseth, Senior Deputy Assistant Secretary for Refugee Programs; and Mr. David Walker, who is the Acting Director of the Office of Regional Affairs of the Bureau of East Asian and Pacific Affairs.

SUMMARY OF STATEMENT

You have my formal testimony and I would like the privilege of summarizing it for you this morning.

As you are well aware, one of the most important refugee issues today is how to deal with the hundreds of thousands of people who have fled Vietnam and the many thousands more who may attempt to flee in the near future. It is not a new problem. Rather, it is an issue we have been working to resolve with a great deal of success over a number of years.

The Vietnamese refugee problem took a turn for the worse in 1988. More than a decade after the fall of Saigon, Vietnam's neighbors were feeling increasingly pressured by the continued flow of asylum seekers. These first asylum nations took steps to discourage the arrival of boat people on their shores.

Their actions, as you have heard, included pushoffs and redirections, which resulted in the deaths of a number of boat people. To meet this challenge, the United States, working closely with the United Nations High Commissioner for Refugees and our ASEAN friends and several other countries, took the lead in creating a new policy framework to deal with the continued movement of Indochinese asylum seekers.

IMPLEMENTATION OF THE COMPREHENSIVE PLAN OF ACTION

The result was the comprehensive plan of action, known as the CPA, and that CPA was adopted by acclamation at the Internation-

al Conference on Indochinese Refugees last June 14 in Geneva. The CPA is an interlocking set of measures designed to address the concerns of all parties involved in the Indochinese refugee problem.

It was adopted in a spirit of cooperation and consensus among parties with diverging and sometimes competing interests. The CPA has several components, the most important of which from our point of view is a reaffirmation of the importance of first asylum.

The agreement explicitly states that all those seeking asylum will be given the opportunity to do so, and sets forth steps designed to put this policy into action. These measures include full and early UNHCR access to new arrivals and screening mechanisms implemented in close collaboration with UNHCR.

The CPA also includes provisions dealing with resettlement of refugees already present in countries of first asylum, orderly departure from Vietnam and repatriation of certain asylum seekers.

I would like now to briefly review the progress that has been made in the 8 months since the CPA was established. We believe great strides have been made in the effort to preserve first asylum. As you know, first asylum is the key to the United States and international refugee policy and is the very foundation of refugee programs worldwide.

IMPORTANCE OF FIRST ASYLUM

The United States firmly believes that we must safeguard the protection and humane treatment of all who seek asylum and, until recently, Vietnam's neighbors have on the whole shown great forbearance and generosity in affording first asylum to those who seek it, and we are grateful for their sacrifices.

Despite this generally positive trend, there have been a series of pushoffs from Malaysia. The Malaysians bore the brunt of the vastly increased arrivals of 1988–89. Today the good will shown by the Malaysians to asylum seekers over the last decade, for which they receive continued international praise, appears to be waning.

While the government in Kuala Lumpur has allowed many boats to land, at least 3,500 people have been denied asylum. Several deaths have resulted. How many others may have died on boats which simply disappeared is unknown.

We have vigorously protested these actions and will continue to do so as long as Malaysia persists in these violations of the CPA. We appeal to Malaysia, as we did to Thailand in 1988, to reinstate first asylum in practice as well as in stated policy and provide all refugee seekers with safe landing under humane conditions.

ORDERLY DEPARTURE PROGRAM

The CPA also helped reinforce and enhance another very important part of our refugee policy, and that is the Orderly Departure Program, what we call ODP. I am happy to say that recently we have seen substantial progress in the ODP. More than 39,000 people departed Vietnam under the ODP in 1989, 26,300 of whom were bound for the United States.

At our initiative, the steering committee of the International Conference on Indochinese Refugees has called for 6,000 persons

per month to depart from Vietnam under regular departure programs, and we are optimistic that this goal will be reached.

Some of the best news came early this month, or last month, when the first of the former reeducation camp prisoners finally arrived in the United States. This breakthrough was the result of a 7-year diplomatic effort by the United States to obtain their release.

Last July 30 we reached an agreement with the Vietnamese to permit their departure. The first 800 people arrived last month and we hope to continue to interview approximately 1,000 persons per month.

THIRD COUNTRY RESETTLEMENT

Another important element of the CPA is resettlement of refugees in camps in countries of first asylum. The resettlement countries agree to admit those refugees who arrive prior to certain cutoff dates, which vary by country. The United States has agreed to take 40 percent of these long stayers, or approximately 18,500, over the next 3 years.

SCREENING AND REPATRIATION

The CPA also calls on the resettlement countries to admit all new arrivals who are determined to be refugees under the screening procedures. As part of its commitment to the CPA, the United States agreed to resettle up to half of these refugees.

Another issue addressed by the CPA is repatriation. This issue is at the heart of the recent controversy surrounding Vietnamese refugees in Hong Kong. The CPA states that persons determined not to be refugees should return to their country of origin in accordance with international practices, reflecting the responsibilities of states toward their own citizens.

According to the CPA, in the first instance every effort will be made to encourage the voluntary return of such persons. Thus far, over 1,100 Vietnamese have returned voluntarily from Hong Kong and more than 1,700 persons are waiting to be processed.

Late last night the steering committee met and discussed proposals on the establishment of a timeframe for instituting mandatory return of those determined not to be refugees and, although the meeting succeeded in defining several important conditions to safeguard the rights of individuals in any repatriation program, there was no consensus on the timing of a moratorium on mandatory returns.

The United States believes that, with almost 2,000 volunteers awaiting return to Vietnam, inadequate counseling for others who may wish to return, the CPA markedly underfunded, an adequate structure not yet in place for returns, that reasonable time has not been given to assess the effectiveness of voluntary repatriation.

The administration's policy is clear. The administration's policy is opposed to involuntary repatriation. As President Bush stated last October 13, he said: "We oppose forced repatriation of refugees to a country like Vietnam."

The United States believes that the CPA must be fully funded, that voluntary repatriation should be given full support, that the current backlog of volunteers should return, and that there needs

to be put into place in Vietnam an adequate structure for reception and monitoring of all returnees.

We understand and sympathize with the plight of the Hong Kong Government, but we cannot agree to involuntary repatriation. Voluntary repatriation has not been given a sufficient opportunity to demonstrate whether it will work.

CONCLUSION

Mr. Chairman, the steering committee has achieved progress on many important issues, as I have described. It is crucial to remember that the lack of consensus among the members of the steering committee regarding involuntary repatriation does not mean that the parties disagree about the legitimacy of the CPA itself.

The United States expects all parties to the CPA to adhere to their commitments under that agreement. First and foremost, all asylum seekers should be permitted to arrive safely in countries of first asylum, and UNHCR protection officials should have immediate free access to all asylum seekers.

Screening programs already established in first asylum countries should be strengthened, so that asylum seekers are given a full and fair hearing, with UNHCR monitoring and the right of appeal.

Donor countries should contribute the funds necessary to meet their full financial obligations. And finally, strong actions must be taken to improve conditions in camps throughout the region to ensure that adequate protection and health care are available to all.

While we see signs that others agree with this approach, the real test will come in the next few weeks, when the sailing season begins. Ultimately, the outflow of asylum seekers from Vietnam is a problem which Vietnam itself must address in a humane and determined fashion. The disastrous economic conditions and severe social and political repression which have created this tremendous outflow of humanity must change fundamentally in order to reverse the trend.

What the people of Vietnam need most is hope, hope that life will offer them something better than the harsh realities they presently face in their own country. Only such hope will stop people from risking their lives on treacherous seas in a desperate search for liberty for themselves and their children.

We are at the crossroads in the history of the Vietnamese boat people. The international effort to put into place a comprehensive plan to resolve this decade-old problem must not be allowed to flounder on the issue of what constitutes a reasonable period of time for giving voluntary repatriation a chance to work.

Our efforts over the next several months will be to stress to all governments the extraordinary extent of agreement on all CPA issues, except the issue of mandatory return. And our hope is that these agreements and other aspects of the CPA will be fully implemented.

PREPARED STATEMENT

There is no humane alternative. We have led the international community in attempting to find a humanitarian solution for the

plight of Vietnamese asylum seekers. Strong bipartisan congressional support, especially from this committee, for this humanitarian endeavor is critical to our success.

We will do whatever we can to work closely with the Congress in order to provide humane solutions for asylum seekers in Southeast Asia. I am here with my colleagues and we are prepared to respond to any questions that you or the committee have.

[The statement follows:]

STATEMENT OF AMBASSADOR JEWEL S. LAFONTANT

Thank you, Mr. Chairman. I would like to describe for you this morning the current state of affairs regarding international and U.S. refugee policy on Indochinese refugees, describe how this policy was developed and is being implemented, and put it briefly in its historical context.

The current situation is tenuous. The essence of the problem addressed by the International Conference on Indochinese Refugees (ICIR) in Geneva last June is this: to continue to defend the right of asylum seekers to safe arrival and humane treatment, and to balance this with the rights of states to control their borders and manage the burden of receiving new arrivals.

In 1988 several first asylum nations became alarmed by the growing numbers of boat people arriving on their shores. Steps were taken to discourage these arrivals. You will recall that Thailand began to push off and redirect boats, at the cost of lives; the Hong Kong Government in June of 1988 unilaterally instituted a screening system designed for those who would seek asylum there; and the Malaysian Government announced plans to close its refugee holding center within a year. Meanwhile, donor community support for automatic third country resettlement for every boat arrival had waned and no longer met the needs of the asylum seekers or the host governments. Consequently, in July of 1988, the ASEAN states called for a new international conference to address the issue of Indochinese asylum seekers, and to reinvigorate the resolve of the community of nations to respond to the continuing tragic flight of Indochinese from their homelands.

After months of preparation including a Preparatory Conference in Kuala Lumpur in March, the Secretary General of the United Nations convened the International Conference on Indochinese Refugees in June of 1989 in Geneva. The Comprehensive Plan of Action (CPA) endorsed by 56 nations represents a fresh look at and a renewed effort to resolve the region's asylum seeker problem.

The CPA is an interlocking set of measures designed to address the concerns of all involved parties. It was adopted at Geneva in a spirit of cooperation and compromise among parties with divergent and sometimes competing interests. The countries of first asylum asked for measures which would stem the flow of asylum seekers. Well over 100,000 Vietnamese remain in first asylum camps and although boat arrivals are down somewhat from last year, it is too early to state that the flow has abated. For their part, the resettlement and donor countries' overriding priority is that the practice of first asylum be maintained in the region.

The United States and others believe strongly that we must safeguard the protection and humane treatment of all who seek asylum. Those who are genuine political refugees should be identified and resettlement opportunities provided for them. Finally, countries of origin have an interest in orderly departure for their citizens who wish to leave, in orderly and safe return for those who voluntarily return home, and in showing themselves to be participating members of the international community. The CPA provides a practical course

of action designed to address the needs and concerns of all parties involved. The CPA calls for the establishment of a Steering Committee to set guidelines and to monitor implementation of CPA measures.

I would like briefly to review progress that has been made in the eight months since the International Conference.

First Asylum

Foremost in our minds among the interests which need protecting are those of the asylum seekers themselves. The CPA's careful balance of measures provides that all persons seeking asylum will be provided safe arrival and humane conditions.

First asylum, Mr. Chairman, is the key to U.S. and international refugee policy and is the foundation for refugee programs worldwide. It is the responsibility of the host nation, in accordance with international standards for the humane treatment of individuals seeking asylum. But first asylum countries cannot bear the burden alone, and an effective response can only be made through the interrelated set of mechanisms developed under the CPA.

Unfortunately, there is a serious problem in Malaysia, which bore the brunt of vastly increased arrivals in 1988 and 1989. Now, the good will manifested by Malaysia toward asylum seekers during the last decade, for which it has received continued international praise, appears to be waning.

There is continued evidence of pushoffs from Malaysia. An estimated 3,500 people or more have been denied asylum in that country, and some deaths have occurred. The United States and the international community have vigorously protested these incidents and will continue to do so as long as Malaysia persists in this violation of human rights and of the CPA. Fortunately, Indonesia has accepted all such boats and provided first asylum and UNHCR access. We appeal to Malaysia -- just as we did to Thailand in 1988 -- to reinstate first asylum in practice as well as in stated policy and provide all asylum seekers with safe landing under humane conditions.

Orderly Departure

Regular departure programs out of Vietnam are expanding, and are critical if a safe alternative route to clandestine departures is to be provided to intending emigrants and asylum seekers. Vietnam has cooperated by issuing a significantly larger number of exit permits and doubling the number of persons departing Vietnam under ODP from 1988 to 1989. Over 39,000 people departed Vietnam under ODP in 1989 - of these 26,300 were U.S.-bound. At U.S. initiative, the Steering Committee has called for 6,000 persons per month to depart Vietnam under regular departure programs. We are optimistic that this goal will be reached. Last July, the United States and Vietnam concluded an agreement which allows the departure for resettlement of former re-education center detainees. The first 800 persons arrived under this program in January, and we plan to continue to interview about 1,000 persons per month. These former detainees are of special

concern to the United States because of the long years they spent imprisoned for their close association with the United States and former South Vietnam Governments during the Vietnam War.

Screening

All first asylum countries have, in cooperation with UNHCR, implemented screening programs to determine who among the arriving boat people are bona fide refugees under international standards. In advance of these screening programs, UNHCR conducted training programs throughout the region. Countries which began screening since the International Conference have not yet announced results, but all are expected to do so in the near future. Hong Kong has been screening new arrivals since June 1988. Since that time nearly 10,000 people have been screened, about 1,100 of whom were adjudicated as refugees. In all first asylum counties, UNHCR is counseling new arrivals on the screening programs, monitoring the progress of cases, and assisting in appeals.

Resettlement

Implementation of this aspect of the CPA is going well. At the ICIR, resettlement countries agreed to take all of the 46,200 longstayers who were in first asylum camps at the time of the conference. The United States pledged to take 40 percent -- or about 18,500. A longstayer is defined by the Steering Committee as anyone registered in a first asylum camp prior to March 1989 or, in the case of Hong Kong, June 1988. The schedule for resettlement of the longstayers is: 50 percent in the first year after the CPA, 35 percent in the second and 15 percent in the third. It appears that the goal for the first year will be met easily. Offtake for the U.S. program is expected to exceed 50 percent (over 9,000) by June 1990, and UNHCR has reported that overall resettlement offers have been recorded for some 60 percent of the longstayer caseload.

The CPA calls on the resettlement countries to admit all new arrivals who are determined to be refugees under the screening procedures. At the ICIR the United States pledged to take up to 50 percent of those screened in; other countries have also made pledges in this regard. Once screening decisions are announced, we can begin implementing this aspect of the CPA. The policy under the CPA is that persons not determined to be refugees will not be resettled.

Unaccompanied Minors

A UNHCR note submitted to the ICIR recognizes that there are vulnerable groups requiring special attention. These groups include unaccompanied minors and victims of violence. To address the needs of vulnerable groups, the Steering Committee has called for the establishment of committees in each country of first asylum. The committees will consist of host government officials, UNHCR and other concerned non-governmental agencies. In the case of unaccompanied minors, the committee will decide on a case-by-case basis which solution is in the best interests of each child.

Unfortunately, only Thailand and the Philippines have established unaccompanied minor committees. The United States has taken the lead in pressing for a special focus on unaccompanied minors, including a call for expedited implementation of procedures to deal with minors and other vulnerable groups. We recently pledged $1.1 million for anti-piracy programs of the UNHCR in Southeast Asia, which include vital counseling programs for victims of violence in Thailand and Malaysia.

Rescue at Sea

According to the procedures agreed to in principle at the January meeting of the Steering Committee in Geneva, persons rescued at sea will be disembarked at the first scheduled port of call in the region, and treated identically to other arrivals under the CPA. Where the next scheduled port of call of a ship carrying rescued asylum seekers is Singapore, persons will be disembarked with a guarantee of removal from Singapore within three months. During this period UNHCR will exceptionally undertake to determine the refugee status of the cases, following which they will be removed to a facility in the region to await durable solutions, consistent with the CPA.

Lao

The CPA calls for maintaining safe arrival and access to screening for Lao asylum seekers. It also calls for accelerating and simplifying the process for repatriation. There has been effective consultation and cooperation between the governments of Thailand and Laos and the UNHCR on these objectives. Screening programs have been consolidated to allow for more careful monitoring while the process for returning Lao has been streamlined. Approximately 1,900 people were repatriated safely and humanely in 1989, more than in any other year. The UNHCR expects that about 3,000 people will be repatriated in 1990.

Resettlement continues to play a role for this refugee population. The United States continues to resettle eligible Lao refugees, admitting well over 12,000 during FY 89. We expect to resettle about 9,000 Lao in FY90. No other country settles more than a small number of Lao.

Repatriation

The CPA stipulates that "persons determined not to be refugees should return to their country of origin in accordance with international practices reflecting the responsibilities of States toward their own citizens. In the first instance, every effort will be made to encourage the voluntary return of such persons." Thus far over 1,100 Vietnamese have returned voluntarily from Hong Kong with more than 1,700 persons waiting to be processed.

The CPA provides that these returns be administered by UNHCR and IOM, and internationally funded reintegration assistance will be channelled through UNHCR. UNHCR has reported that its officials in

Vietnam have personally visited 40 percent of those who have voluntarily returned. UNHCR has further declared that it is satisfied that Vietnam is meeting its responsibility not to penalize the returnees.

On January 23-24, the Steering Committee debated proposals on the establishment of a timeframe (i.e., a specific date which defines "reasonable time") for instituting mandatory return of those determined not to be refugees. Although the meeting succeeded in defining several important conditions to safeguard the rights of individuals in any repatriation program, there was no consensus on the timing of a moratorium on mandatory returns. The United States believes that, with almost 2,000 volunteers awaiting return to Vietnam, inadequate counseling for others who may wish to return, the CPA markedly underfunded, and adequate structures not in place for return, a reasonable time has not yet been given to assess the effectiveness of voluntary repatriation.

The President's policy is opposed to involuntary repatriation. We believe that the CPA must be fully funded, that voluntary repatriation should be given full support, that the current backlog of volunteers should return, and that there needs to be put in place in Vietnam an adequate structure for reception and monitoring of all returnees. We understand and sympathize with the plight of the Hong Kong government but we cannot agree to involuntary repatriation. Voluntary repatriation has not been given a sufficient opportunity to demonstrate whether it will work.

Conclusion

Mr. Chairman, the Steering Committee has achieved progress on many important issues, as I have described. The U.S. expects all parties to the CPA to adhere to their commitments under the CPA. First, and foremost, is the commitment that all asylum seekers should be permitted to arrive safely in countries of first asylum and that UNHCR protection officers should have immediate, free access to all asylum seekers. We further believe that the screening programs already established in all first asylum countries need to be strengthened so that there is no doubt that asylum seekers are given a full and fair hearing with UNHCR monitoring and the right of appeal. Donor countries are expected to contribute their full financial obligations. We also urge a maximum effort to improve conditions in camps throughout the region to ensure that adequate protection and health care are available to all. While we see signs that others agree with this approach, the real test will come in the next few weeks when the sailing season begins and possible a new wave of asylum seekers will occur.

The U.S. urges all parties to the CPA to move ahead on its implementation. It is crucial to remember that the Steering Committee deadlock is not a deadlock on the CPA itself. The U.S. and all other parties to the ICIR remain obliged to adhere to their commitments undertaken at the International Conference.

I would emphasize that the United States will meet its commitments to support the CPA. We will resettle 40 percent of the longstayer population within three years. We will accept for resettlement up to 50 percent of the screened-in and we call upon the countries of

first asylum to announce the results of their screening programs promptly. We plan to continue to increase the number of persons resettled under the ODP program. Finally, we will continue our financial support of the CPA and have just released $11.1 million for CPA implementation. We will consider a further contribution toward the CPA from the Emergency Refugee and Migration Account (the "ERMA fund").

Ultimately, the outflow of asylum seekers from Vietnam is a problem which Vietnam must address in a humane, but determined way. The disastrous economic conditions and political repression which have given rise to this unprecedented outflow of humanity must change fundamentally in order to reverse this trend. What the people of Vietnam most need is hope - hope that life will offer them something better than the harsh realities they presently face in their own country. Only such hope will deter people from endangering their own lives on the treacherous high seas in search of liberty and prosperity for themselves and their children.

We are clearly at a crossroads in the history of the Vietnamese boat people. The very complex and difficult but nevertheless successful international effort to devise a comprehensive plan to resolve this decade-old problem cannot be allowed to flounder on the issue of what constitutes a reasonable period of time for giving voluntary repatriation a chance to work.

We can take some comfort in the knowledge that the very able newly installed United Nations High Commissioner, Mr. Thorvald Stoltenberg, is right now engaged in a personal effort to bridge the differences among the key nations with regard to mandatory returns. While we are deeply concerned over reports of continued Malaysian pushoffs and the recent bilateral negotiations between Malaysia and Vietnam, we are nonetheless encouraged that adherence to the CPA remains largely intact throughout the region.

Our efforts over the next several months will be to stress to all governments the extraordinary extent of agreement on all CPA issues except for the issue of involuntary return.

From the longer perspective of history, the international response to the plight of Indochinese asylum seekers will be seen as a success. The United States has led the international community in this response. Strong bipartisan Congressional support -- and particularly from this committee, Mr. Chairman -- for this humanitarian endeavor has been integral to maintain a policy that is not only responsive at the time of its creation, but also flexible enough to address changing conditions as they occur. Continued good support throughout the U.S. Government coupled with good will among the international parties to this issue ensure that humane solutions are provided for asylum seekers in Southeast Asia.

I would be pleased to answer any questions you may have.
Thank you.

Senator HATFIELD. Thank you very much.

I yield to my ranking member, Senator Kasten.

Senator KASTEN. Mr. Chairman, let me just ask one or two questions, and I want to allow you to address yourself to these issues.

I do not think the real test, Madam Ambassador, is when the sailing season starts. I think the real test is whether or not we are going to fund these programs and whether or not you and others at the State Department are successful in your negotiations with OMB and others in terms of funding.

I think we have failed the first couple of real tests. We have finally struggled and got $70 million in a supplemental that should have been $90 million. Can you describe to me why you think we can get away with adding only $70 million in the 1990 estimate with regard to the increase of refugee admissions? I think it needs to be at least $90 million.

Ambassador LAFONTANT. First, thank you very much for your question. The first thing I would like to say is we could not agree with you more that funding is the big issue. The United States itself has pledged already $11 million to UNHCR for part of this program. We have collected a total of $18 million, or close to $18 million, from all the rest of the world. So we are far ahead and we are pushing to get other countries to jump on board.

As far as the question of why we have a shortfall, I would like to take this opportunity to have the expert in this area, our Director of Refugee Programs, answer that question for you.

Senator KASTEN. Let me ask one more question because I believe you are short for 1990. I think that the $70 million is not going to be adequate. But then look to 1991. Look to your budget request; $185 million is the total, and the $70 million will add to $231 million for this year.

How in the world, if we are short already at $231 million, can you justify coming to us with a budget request of only $185.220 million?

It seems to me that we are underfunding the program going in and that we will need an additional $70 million or so to get up to where we are now.

These problems are not going away. They are getting worse. And yet, you are coming to us with less, not more, money in the 1991 request.

Senator HATFIELD. Will the Senator yield for a moment?

Senator KASTEN. Yes.

Senator HATFIELD. Senator, could I also suggest that in your answer we find out what you requested before OMB sanitized your budget? That is an important point. I understand you are up here representing the administration's budget, but at the same time, we are asking for a specific fact. The Senator and I want to know, what did you request before OMB, because that always tells us a little more about the agency's attitude.

Senator KASTEN. Let me just take two more steps here and then we can go through this. The first question is why the $70 million is not $90 million, because some of us feel $90 million was inadequate.

MIGRATION AND REFUGEE AFFAIRS REQUEST FOR 1991

The next step is why the 1991 request is clearly low, whether or not it should have been $70 million or not in the supplemental. The next step, going down now away from the admissions part of the budget to the refugee assistance part of the budget, many people feel you are at least $50 million short with regard to refugee assistance.

That is now at $168 million. People feel that we need to add $50 million to that. Now, to your credit, next year's number seems to be more closely in line.

But what are we going to do about this year? The third element of this is the refugees to Israel question. There are a number of people who feel that, because the refugee issue has changed dramatically in the Soviet Union, the $24 million you have in that category, other activities, refugees to Israel, is short.

It might be short by at least $20 million. We do not want to do what we have done in the past, when we've taken money from other parts of the world to assist refugees coming out of Israel in that Rome-Vienna pipeline. That was wrong, we ought not to have done that, and we will not do that again.

So there really are four different questions. No. 1, why isn't the $70 million $90 million. No 2, why is next year only $185 million? No. 3, why do we not add at least $50 million to refugee assistance, and should that not have been in the supplemental, calling for the additional $70 million in refugee admissions?

No. 4, why are we inadequately funding the refugees to Israel because of dramatically changed world situations?

In all these cases, I agree completely with the ranking member of the full committee. What are you asking for? Are you just not making your case very well over there, do they not agree with you, or what is the situation?

Ambassador LAFONTANT. Good questions.

Two words that I have learned to hate since I have come on board in this job. I came on board just in June last year. Those two words are "budgetary constraints." And part of the answer to your questions has to do with budgetary constraints.

AMPLIFICATION OF FISCAL YEAR 1990–91 REQUESTS

But for the specifics, I would like to turn to Ambassador Lyman, as to why the $70 million is not $90 million, the $185 million figure, and the question on the Soviets. Ambassador Lyman, would you respond.

Ambassador LYMAN. Thank you.

Senator, let me try and answer each of those as best I can. On the $70 million, we believe that is all we need to cover the additional shortfall this year. We have analyzed the additional costs for covering both processing abroad and transportation, as well as reception and placement costs, and they come to an additional $70 million.

We believe that will enable us to cover the entire admissions costs this year, that we do not need $90 million, that $70 million will provide that. I can give you the details of that subsequently.

Senator KASTEN. Let us touch then on Senator Hatfield's question. You went in asking for $70 million, is that what you are suggesting to me?

Ambassador LYMAN. Yes.

Senator KASTEN. You never asked for $90 million?

Ambassador LYMAN. No; as a matter of fact, when we testified on the consultations last fall we had a figure around $58 million, and we raised it to $70 million as we did further calculations.

On the 1991 figure for admissions, the reason that it is lower this year even though we are anticipating the same number is that by no longer processing Soviet applicants in Vienna and Rome, we eliminate the care and maintenance costs. That has been running between $35 million and $40 million a year, and now that all that processing will take place from Moscow, we eliminate that cost.

So we should be able to cover the admissions of a similar number in 1991 as we do in 1990 with a lower total cost, because we no longer do the care and maintenance costs in Europe.

On your third question, on the question of assistance, by requesting the $70 million in the supplemental this year to cover admissions shortfall, we anticipate that allows us to draw on the $50 million of the President's emergency and migration assistance fund primarily, if not exclusively, for assistance needs this year, and we are looking at various demands that we would ask the President to meet from that fund. That would add up to $50 million additional for assistance programs.

On your final question on programs for Israel, again I think within the context of the total budget constraints and what our appropriate contributions can be in light of all our other obligations, we felt that the amount requested for 1991 was appropriate.

We recognize that there are different feelings in the Congress on that.

Senator KASTEN. What do you think the chances are that you will come up here with a supplemental? Let's just for an example say that we fund you at 1991 request levels across the board. Would you say the chances are 9 out of 10 that you will come back here for a supplemental?

Your track record in this area is that you have traditionally been underfunded and you come back. It is not quite as bad as food stamps and a couple of other programs, but every single year you come back.

Are you telling me that you are pleased with these numbers and you are unlikely to come back with any additional needs for funding in 1991?

Ambassador LYMAN. I am pleased with the fiscal 1991 numbers. The reason we came back for a supplemental on the admissions this year is the increase in the number of admissions for this year. When Ambassador Lafontant led the consultations with Congress last fall, there was an increase of 27,000 of refugees to be admitted to the United States over the numbers that had been used to make up the original budget.

Obviously, if we change in the consultations coming up this fall the number of refugees to come into the United States, that would change the funding. But assuming that we use approximately the same numbers, we think these figures are sufficient.

PRIVATELY FUNDED REFUGEE ADMISSIONS

Senator KASTEN. Madam Ambassador or Mr. Ambassador, what is the number of unfunded admissions and how does that number compare with 1989, with 1988, with 1987?

Ambassador LYMAN. There is a substantial increase. This year we will have a total of 14,000.

Senator KASTEN. Compared to what?

Ambassador LAFONTANT. I think we had 4,000 the year before.

Mr. WINDER. Well, those are privately funded, Senator. In fiscal year 1989 there was provision for 4,000 refugees to come in privately funded.

Senator KASTEN. But you have gone from 4,000 to 14,000.

Mr. WINDER. That is right. In fiscal year 1990 we made special provisions for 10,000 extra additional refugees to come from the Soviet Union under private programs. There is no provision in the fiscal year 1991 budget for any privately funded numbers.

The total of 110,000 corresponds to the total of 111,000 that came into the United States under government funds in fiscal year 1990, or that are projected to come in this fiscal year. So there may be some unfunded numbers for fiscal year 1991.

That decision will be taken in the context of the consultations that Ambassador Lafontant will conduct this fall with the Congress. But in any event, that will not add any needed funds to the fiscal year 1991 request.

Senator KASTEN. Let us say we have a difference of 4,000 and 14,000. If you were to fund that additional, how much would it cost? If you were to fund instead of putting them in the unfunded category?

Ambassador LYMAN. About $20 million.

Senator KASTEN. So it is fair to say that is the difference between the 1990 and the 1991 budget? You are just shifting them into another category.

Ambassador LYMAN. It is not the reason. The difference between 1990–91 is not doing the care and maintenance in Europe.

Mr. WINDER. Because the numbers are the same.

Ambassador LYMAN. The number of people coming in funded in 1990–91 are the same.

Mr. WINDER. Funded.

Senator KASTEN. But you see, it is just the difference between the supplemental at $70 million, and the supplemental at $90 million, is the same $20 million that you are talking about, that you just said it would cost if we had funded as opposed to unfunded refugees.

Ambassador LYMAN. Well, yes——

Senator KASTEN. I am not going to pick at you.

Ambassador LYMAN. Let me just say, on the unfunded numbers we have just signed an agreement with several private organizations that have agreed to carry the financing for 8,000 of the 10,000 from the Soviet Union. So those refugees will be able to come to the United States and the private sector has agreed to finance them.

Senator KASTEN. I understand that the private sector has agreed to finance them, because they had a choice of either financing

them or not because the funds were short. And they decided that they would somehow finance them.

MRA IN CONTEXT OF FOREIGN AFFAIRS ACCOUNT

If we consistently underfund these programs coming in to us with the 1991 budget request, which I believe is low, what the Congress does is add back more money. We add back money and that means we take money. We take money from Africa, we take money from Jamaica, we take money from countries that are not earmarked and are expecting the money, and we add them into your account.

In effect, by coming to us with an account that is too small, that is inadequate, you are stealing money from some of the poorest countries in the world, that cannot afford lawyers and lobbyists to come up here and get their countries earmarked. It is just that simple.

I think it is important that these budget requests reflect accurately the challenges and the goals that you outline in your prepared statement. The issue here is not so much policy; it is money. And we are not adequately funding your programs either this year or next year.

Mr. Chairman, I have no more questions.

Ambassador LAFONTANT. We certainly appreciate your remarks. So often we are asking for much more than what we are getting, and to have the sympathy of the committee and the knowledge of the committee and you saying that we should ask for more money and you really believe that we are underfunded, it is a good twist. And I am certainly sure that this committee will——

Senator KASTEN. But that is not the point. That is not the point I was making. We have always added money in these categories, but in order to add money in these categories we have got to take money——

Ambassador LAFONTANT. True, I understand.

Senator KASTEN [continuing]. From other countries, take money from other programs, take money from places that are deserving and are expecting particular dollar amounts.

But, coming up with insufficient budget requests, you are hurting other deserving countries and other deserving programs.

I have taken more time than I intended.

Senator HATFIELD. Senator, I am very grateful for your probing on this subject. It is very important.

Senator KASTEN. I turn it over to you. You are our leader now.

Senator HATFIELD. I historically have had a difficult time probing out the funding system, because carryovers always confuse me. We were funding for a certain number, 1 year, and yet we were making that up by a carryover from the previous year.

But I will relieve you, Madam Ambassador, from that little litany.

Ambassador LAFONTANT. Please.

Senator HATFIELD. I have a number of questions. In order to hear from all of our witnesses today, I shall forego taking the time, but I will submit them to you for a written response. If you will respond

to them as expeditiously as possible, so we can complete the record, I would appreciate that.

Ambassador LAFONTANT. Thank you.

ORDERLY DEPARTURE PROGRAM

Senator HATFIELD. I do have one or two points that I would like to probe a little bit. I have a summary of the budget for 1991. I notice that the Orderly Departure Program [ODP], moves from 11,500 given for your funding to 14,000 in fiscal year 1991.

In your testimony you indicated that we have had 800 arrive and we expect that number to go to 1,000 a month, which I am sure factors out to 14,000 for the annual 12 months budget request.

Are you convinced that moving from 8,000 in 1989 to 11,500 in 1990, we will see that program move further up to 14,000? You know, we have had a lot of difficulty with the ODP program in the past from the standpoint of whether or not it was a source of revenue for the Government of Vietnam in terms of kumshaw or bribes or whatever was necessary to get onto the ODP list.

Are you convinced that we will be able to reach that level on the current basis? Second, how honest is that program in its implementation?

Ambassador LAFONTANT. Well, the answer is, yes, we do expect to reach that number. Bob Funseth, who has been the godfather of this whole ODP program in Southeast Asia, can respond further. But yes, the answer is we do expect to.

Bob?

Mr. FUNSETH. Thank you. Thank you, Mr. Chairman.

We should easily reach that number. And there is an additional number that does not show in the budget because they come in as immigrants, and we hope that in 1991 that the total immigration from Vietnam may reach as high as 60,000 persons, provided the Vietnamese authorities give exit permits to people who hold current immigrant visas.

With reference to the question about the honesty of the program and what is going on inside Vietnam, it is well known that people are asked to pay, whether they go out by boat or whether they come out with exit permits. It is an arbitrary system, as you know. Some people do not pay anything, and yet we do have reports, certainly at the local level, of people having to enhance their chances of getting out.

But on the whole——

Senator HATFIELD. Is it inflationary, or how would you assess——

Mr. FUNSETH. I do not know.

Senator HATFIELD. You do not have that information.

Mr. FUNSETH. And understandably, people who succeed in getting out are reluctant to talk about it because they are under duress and they do not want to jeopardize the chances of other people coming out.

Senator HATFIELD. You know, from previous administrations we have had less than enthusiastic support for ODP for that reason, that they were providing another revenue source for the Vietnamese Government.

Mr. FUNSETH. Our overriding concern is—and it goes back to the whole issue of the CPA and asylum seekers—that we want people to leave in an orderly emigration manner from Vietnam. We do not want them to leave by boat. And for that reason we have pressed very hard for an expansion of the Orderly Departure Program.

It was an integral part of the comprehensive plan of action. We insisted that it be explicitly stated in the CPA and that reference also be made to the reeducation center detainees, because they in fact had been excluded from the ODP and large numbers of them were leaving by boat.

One of the aspects of giving voluntary repatriation time to work, is also to give the ODP time to work and to expand. And we are generally satisfied with the commitment of the Vietnamese authorities, because it has greatly expanded, from 23,000 to over 50,000 and maybe as much as 60,000. And with those numbers going up, we hope fewer and fewer people will risk their lives and attempt to leave by boat.

REFUGEE ADMISSIONS FROM FIRST ASYLUM

Senator HATFIELD. And the 18,000 long termers which you say we want to try to absorb in the next few years, where do they show up on page 4 in these categories on migration and refugee assistance?

Ambassador LYMAN. First asylum.

Senator HATFIELD. You are considering them within the 23,000 for 1991?

Ambassador LYMAN. Yes.

Senator HATFIELD. When you say over the next 3 years, does that divide out fairly equally?

Ambassador LYMAN. Well, no. What we committed ourselves to at the CPA was that 50 percent of the long termers would be taken the first year.

Senator HATFIELD. First year.

Ambassador LYMAN. And then the balance——

Mr. FUNSETH. Thirty-five in the second and fifteen in the third.

Ambassador LYMAN. And we and the other countries in the CPA should meet that target rather well this year. The balance in those numbers are of course additional people newly screened that would also come under the first asylum category.

VOLUNTARY REPATRIATION AND MANDATORY RETURN

Senator HATFIELD. From the CPA point of view, forced repatriation is but one component, or voluntary repatriation. How do you see this CPA functioning with that issue unresolved? What about the other components?

Ambassador LAFONTANT. Well, the other components, for instance rescue at sea, we would hope would still be viable. The unaccompanied minors, which has been a great problem, we would hope the countries would abide by that. In the meantime, we would be working with all of our energies to increase the funding to the UNHCR so that they can make the screening process what it should be, the monitoring process what it should be, so that voluntary departure could be workable.

Senator HATFIELD. Well, since they rejected your moratorium recommendation, is there any way to leverage these other components to get a shorter period than a 12-month moratorium, when all these other components are operative?

I hate to see forced repatriation become an excuse for the collapse or for the lack of full implementation of all the rest of it. Can you somehow leverage the other components to that objective on the question of repatriation? It seems to me if they see movement, these countries of first asylum, we might release a little bit of the pressure that seems to have built up on this matter.

Ambassador LAFONTANT. Well, I daresay that it could be used as leverage. We would try everything in the world to leverage whatever positions we have. We think at this point that we have to continue our pressure on other countries to join us. We cannot possibly go this route completely alone, but we certainly are not bowing out of the position the United States has already taken on the 1-year moratorium.

ASSESSMENT OF THAI ATTITUDE

Senator HATFIELD. How to you assess the country of Thailand at the moment? Thailand has been a long termer in this business. They have been on the front line of much of the refugee migration; and have been stalwart friends.

I have climbed along that border in those camps and talked to that government and they tell us from time to time that when they see so little movement in terms of the numbers, they feel that our commitment wanes or that our commitment is unsteady, and they become nervous.

How do you assess the Thais?

Ambassador LAFONTANT. The Thais' attitude thus far has been pretty good. They have been abiding by the first asylum practice. The camps in Thailand are relatively good compared with camps in other areas. They cooperate with us and we have been feeling pretty good about the Thais.

But it will not go on forever. We have got to keep up the pressure, keep up the effort, to show them that we are abiding by our principles.

Senator HATFIELD. Do you feel that there is movement occurring that gives them some assurance that we are fulfilling our commitments and they are not just being stuck with a whole new population on the border?

Ambassador LAFONTANT. We sincerely hope so.

Senator HATFIELD. You think their attitude presently is good, fair?

Ambassador LAFONTANT. Pretty good, pretty good. Their attitude is pretty good, and I think they are relying upon the United States and relying upon us to abide by our principles and to make the whole issue of first asylum remain a viable one. And their attitude has been pretty good.

We do not have the pushoffs that we had years ago from Thailand.

Ambassador LYMAN. Could I just add one element to that, Senator? I think for the Thais also, they have told us that the CPA—

they prefer dealing with this problem in a multilateral framework and they would like to see the CPA preserved for that reason.

It is better for them to be able to address it in a multilateral framework than otherwise.

REFUGEE SCREENING IN HONG KONG

Senator HATFIELD. So many of these things, you know, get down into the nitty-gritty of procedures, whether it is screening procedure or whatever else. Update us a little bit about this challenge, this litigation pending in Hong Kong and the challenge that is being made to our screening and appeals procedure?

Ambassador LAFONTANT. We are very much concerned. I think that is about as much as I could say, because the case is pending in court. It has been accepted, and this is something that the plaintiffs will have to prove.

We are concerned, and that is one reason that we are insisting on increasing the funding to the UNHCR, so that they can do a good job of screening, monitoring, and all the things that have to be done for this voluntary repatriation to work. We are very, very concerned and continue to be concerned. We were concerned before the lawsuit was filed.

We have talked with the people who are responsible for the filing of the lawsuit long before the suit was filed. We have had all different agencies coming and telling us about their concerns. So we are aware of concerns and we are concerned.

Senator HATFIELD. Is there any linkage between our position on the moratorium and the resolution of the litigation?

Ambassador LAFONTANT. No; not to my knowledge.

Ambassador LYMAN. In our presentation at the steering committee, our proposal was part of a package in which screening practices would be indeed brought to international standards, because if you do not have an internationally acceptable screening practice then the return program obviously cannot run correctly.

So that was part of the total package we put on the table.

Ambassador LAFONTANT. I think your question was asking something else. It just hit me that it may not be tied to the court suit, but certainly the screening process is tied to what is called a reasonable period of time.

We feel that it will take at least 1 year, perhaps, that we will need that time to have everything in place, get all the funding we need, and be able to operate smoothly.

FOREIGN AID POLICIES AS LEVERAGE ON REFUGEE ISSUES

Senator HATFIELD. Do you feel that we are using the greatest potential leverage we might have, say through our trade and foreign aid policies that could help us on the refugee front?

Ambassador LAFONTANT. It is not on my platter. Someone else would have to respond.

Senator HATFIELD. But maybe you could dish it out on somebody else's platter.

Ambassador LAFONTANT. All right, I hear you. Yes; I hear you.

Senator HATFIELD. I really feel that when we are dealing with these countries there is nothing precedent setting in linking multi-

ple objectives of foreign policy to all of our relationships, economic, political, diplomatic, what have you.

I think it is a test of the administration's seriousness on this refugee front. We have certainly practiced this in other parts of the world from time to time.

Ambassador LAFONTANT. I am sure you are more aware of that than I.

Mr. WINDER. If I might say, Senator, on that linkage, we would have had a much better chance of linking that in the past when our assistance levels were much higher, particularly for Thailand and Malaysia.

I say particularly for Thailand and Malaysia, our assistance levels of dropped precipitously and our ability to use foreign assistance as leverage has therefore declined considerably.

Senator HATFIELD. What about trade?

Mr. WINDER. Trade is growing and it is to both our benefits to have the trade continuing to grow. We are exporting more and more to that part of the world, with the help of the Southeast Asian economies.

Senator HATFIELD. Yes; but Carla Hills is in that role could certainly—I would hope some time you might have lunch with her and explain to her some of our problems and negotiate some trade policies.

Ambassador LAFONTANT. We are good friends.

Senator HATFIELD. She is very astute. She is a Stanford grad, too.

Ambassador LAFONTANT. And I would like to quote you.

Senator HATFIELD. You may quote me. Tell Carla I send my love to her.

Ambassador LAFONTANT. Carla and I were at the Justice Department at the same time in the seventies. I have known her very well, sir. It is a good idea.

Senator HATFIELD. When my wife was doing her graduate work at Stanford, she was a resident counselor in a freshman women's dormitory and Carla was one of her counselees. A few years before that when I was doing my graduate work at Stanford, I was a freshman counselor and Rod Hills was one of my counselees. So we have a long-time relationship.

Ambassador LAFONTANT. There is some sort of conclusion to be drawn from that. [Laughter.]

ADDITIONAL COMMITTEE QUESTIONS

Senator HATFIELD. I take full credit. I do have a number of other questions, but I would like to hear from our other witnesses. So thank you all, Ambassador, you and your very able staff. I appreciate your testimony.

Ambassador LAFONTANT. Thank you very much.

Senator HATFIELD. I think you have heard it directly from the chairman and from the ranking Republican member and myself. We believe we can speak for the majority of this committee, at least, and say that we are anxious to be helpful and provide the resources necessary.

We have to have, of course, the data base and your request. I hope you will feel free at any time to communicate with this com-

mittee in furthering the objectives and goals of our refugee policies and programs.

Ambassador LAFONTANT. Thank you so much.

Senator HATFIELD. And do not be intimidated by Dick Darman.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

ASSISTANCE VERSUS ADMISSIONS

SENATOR LEAHY: Are budget constraints causing you to choose between vulnerable refugees who need resettlement, and vulnerable refugees in camps overseas who need assistance?

If that is true, how do you set your priorities?

AMBASSADOR LAFONTANT: Achieving an equitable balance in response to the need for refugee resettlement in this country and humanitarian assistance for refugees abroad is an important aspect of dealing with the overall Migration and Refugee Assistance (MRA) budget.

Ideally, of course, there should not be any competition between refugee admissions and refugee assistance funding. We should be able to assess the needs and the appropriate U.S. response to each area separately, on its own merits, and fund each program accordingly. Yet we acknowledge the reality that there is an inherent competition among all federal programs as part of our national deficit-fighting strategy. We strive to accomplish what we can within the financial constraints of the overall budget. At times this calls for a greater expenditure in response to resettlement requirements; at other times, this calls for a greater response to emergency needs or opportunities for durable solutions on the assistance side.

In the past three years, extraordinary refugee admissions opportunities have become possible for Amerasians and former reeducation center detainees from Vietnam; and for persecuted religious minorities in the Soviet Union. These have long been high priority foreign policy objections of the Administration and the Congress. We worked hard to achieve these opportunities, and they required increased funding to carry out.

Over the past three years, total USG funding for assistance to refugees overseas has remained fairly constant while the number of refugees worldwide has increased by 2.7 million and the budgets of the international organizations assisting the refugees have increased to meet their growing numbers and expanding needs. During this period, MRA assistance appropriations have not been able to keep up with the increased budgets for general programs put forward by the international organizations. In addition, we have used the President's Emergency Fund (ERMA), dire emergency supplemental appropriations, and contributions from other USG sources to provide U.S. support for emergency appeals from these international organizations. For FY 1990, we expect that most of the Emergency Refugee and Migration Assistance Fund (ERMA) account will be used to meet urgent and unforeseen assistance needs. If this is the case, then total MRA assistance funding would reach $280 million in FY 1990, compared to $259 million in FY 1989, and $238 million in FY 1988.

SENATOR LEAHY: I am informed that you expect to clear out the Rome/Vienna pipeline of Soviet Jews this summer. That very high cost operation will close down and all processing of Soviet Jews will be through the Embassy in Moscow.

I am also informed that your staff believe this will result in a sharp decline in the refugee admissions portion of the overall refugee budget. There can -- and should be -- a marked shift in resources from admissions to assistance in the future.

Is this information correct? Why is that shift not already apparent in your budget submission for fiscal 1991?

AMBASSADOR LAFONTANT: I am pleased to report that the shift in resources from admissions to assistance is reflected in the Administration's FY 1991 budget request. With the elimination of the Vienna/Rome pipeline, costs related to the processing of refugees in these two European capitals as well as the costs related to their stay (care and maintenance) while they await admission to the United States are eliminated. Accordingly, the FY 1991 admissions budget reflects a $46.7 million reduction from the FY 1990 level. Funds requested for international refugee assistance in FY 1991 reflect a $46.5 million increase over the FY 1990 MRA appropriated level.

BUDGET DECLINE - ERMA

SENATOR LEAHY: Last year the Administration requested $370 million for Migration and Refugees. The FY90 Supplemental took care of the shortfall on the admissions side.

But refugee assistance is another issue.

I understand you plan to tap the Emergency Refugee Account (ERMA) to pay for shortfalls in refugee assistance. But that account is meant for unexpected emergencies. It is not just another refugee assistance fund. For one thing, the budgetary impact of those emergency funds is very different from other refugee assistance.

You have requested $215 million for refugee assistance, and $25 million for the ERMA. How much of the ERMA do you expect to spend on non-emergencies? Because of the use of ERMA for "ordinary" refugee crises, there are indications CBO plans to score the ERMA at the same rate as the Migration and Refugee Account in fiscal 1991. Can you make a clear case that ERMA will be used only for emergencies in FY91?

AMBASSADOR LAFONTANT: The U.S. Emergency Refugee and Migration Assistance Fund, as defined by the Migration and Refugee Assistance Act of 1962, as amended, is available only for "unexpected urgent refugee and migration needs," and only after a Presidential determination that the provision of assistance in response to such needs is "important to the national interest." I can assure you that we have carefully followed this definition in the past and that we will continue to adhere to it in the future.

Whether or not to "score" the outlays from the Emergency Fund has been a matter of disagreement between the Administration and CBO. The President's budget has always projected estimated ERMA outlays based on prior years actuals.

BUDGET REQUEST

SENATOR LEAHY: Last year you requested $370 million for the Migration and Refugee Assistance program. Then, after our strong urging, you requested an additional $70

million in the Supplemental. We've added $5 million to that, for a fiscal year 1990 total of $445 million.

For fiscal year 1991, you have requested $450 million for refugees, a $5 million increase.

Is it the position of the Administration that $450 million is sufficient to meet US commitments and contributions toward refugee needs? Are you saying you do not expect to come forward with another Supplemental about next February?

AMBASSADOR LAFONTANT: For FY 1991 we are requesting a total of $215.2 million to support regional international assistance efforts overseas on behalf of refugees and conflict victims. This is an increase of $46.5 million over the FY 1990 level for these activities. The request also includes $41.7 million for other activities, including assistance for the resettlement of refugees in Israel. It is the Administration's position that the FY 1991 budget request of $256.9 million for regional and other assistance activities is sufficient to meet U.S. contributions towards refugee needs. In addition, the Administration has requested a $25 million replenishment of the Emergency Refugee and Migration Assistance Fund in FY 1991.

SENATOR LEAHY: Ambassador Lafontant, one of the consequences of the decline in funding for refugee assistance is a cut in our contributions to the UN refugee programs and the International Red Cross. In 1985, we contributed 27 percent of UNHCR's budget. Last year only 22 percent. In 1985 we contributed 30 percent of the ICRC's budget. Last year only 16 percent. Our contribution to the UN Relief Works Agency (UNRWA) has fallen from 40 percent to 27 percent since 1985. A good measure is how much UNHCR spends per refugee. In 1985 it was $46. Today it is $38. What is our fair share?

AMBASSADOR LAFONTANT: It is a regrettable fact that the numbers of refugees, displaced persons, and victims of violence who are candidates for assistance from the UNHCR and ICRC have gone up worldwide. This is particularly true in Africa, where I just visited. We admire the international organizations that work to meet the needs of refugees and displaced persons, and we support that work generously. However, the United States has always resisted the idea that we must maintain a fixed percentage of international organization budgets. Likewise, we do not feel that "indexing," i.e., providing a fixed amount of money for each refugee, is the best means to address relief and protection problems.

The United States has always been a generous contributor of both food and money to international organizations that work on humanitarian issues. We will continue to be generous. At the same time, we must be realists regarding the amount of funding available to meet these needs. When the United States is not able to increase its contributions to ever expanding program budgets, we advocate that greater efforts must be made by the concerned organizations to expand their donor bases beyond the small core of traditional donors to include new sources such as the Arab nations, the NIC's, corporations, foundations and individuals.

SENATOR LEAHY: How much should the other donors pay?

AMBASSADOR LAFONTANT: The United States does not specify how much a given donor should pay based on GNP, population or any other indicator. However, the U.S. has always maintained that the burden of refugee costs be shared. We and other donors have pressed the international humanitarian organizations to do a better job of fund raising. While the contributions of the top donors have remained high, the deficits encountered by the UNHCR and ICRC show both that this small pool of donors is not keeping up with significantly increasing budgets and that broadening the base of donations is a necessity (the contributions of the top 16 donors represented 97% of total contributions to UNHCR in 1989). The ICRC has made some progress in this area -- in 1989, the contributions of the top 16 donors represented 69% of total contributions (down from 86% in 1988), with the difference being made up by other, new donors.

SENATOR LEAHY: How do we get them to do more -- by doing less ourselves, or by doing more?

AMBASSADOR LAFONTANT: The United States would not intentionally hold down its contribution to an international humanitarian organization in an attempt to leverage other donors to do more. First of all, I doubt it would have that effect. Second, it would be a wrong approach. In response to the humanitarian needs identified by all international organizations, we strive through the Migration and Refugee Assistance regular program funds to maximize our contributions to the annual program budgets of these organizations and we use the President's emergency fund, as necessary, to respond to special appeals in urgent and unforeseen situations. We believe that U.S. leadership, including through prompt response to emergency appeals and through diplomatic support, can often stimulate contributions from other donors. We have encouraged and will continue to encourage other donors, new and traditional, through bilateral and multilateral channels, to do all that they can on behalf of these organizations. For example, the U.S., as a member of UNHCR's Executive Committee and its temporary Working Group, has advocated the incorporation into the report of the Working Group to the UNHCR a recommendation regarding increased fund raising efforts.

U.S. REFUGEE POLICY COORDINATION

SENATOR LEAHY: Our system for dealing with refugee policy and its implications involves several cabinet level and specialized agencies. The State Department, AID, the Office of Foreign Disaster Assistance, HHS, are examples.

As the two people at the hub of this wheel, how well do all these agencies coordinate? How about your role as Coordinator, Ms. Lafontant? Do you have any real authority over resources or policy to enforce coordination? Ins't the reality that each part of the U.S. refugee effort goes its own way with little or no coordination?

Can you suggest changes that would help the system work better?

AMBASSADOR LAFONTANT: As Coordinator, I consider the coordination between the Department of State, INS, AID, OFDA and HHS on refugee admissions planning and budgets to

be of utmost importance. To this end, I chair a weekly meeting of representatives from the Departments of State, Health and Human Services and Justice, the National Security Council and the Office of Management and Budget to ensure policy and program coordination, which includes budget issues. Furthermore, all the Office of Refugee Resettlement at HHS, the Bureau for Refugee Programs at the State Department and the U.S. Coordinator's Office monitor domestic resettlement programs to ensure that they are properly and efficiently implemented.

We have also taken steps to improve coordination and communication with our partners in state and local government. My office and the Office of Refugee Resettlement at HHS have both conducted regular consultations with state refugee coordinators and representatives of voluntary agencies (VOLAGS). The State Department also participate in such meetings. For our priority effort to resettle Vietnamese former political prisoners, for example, ORR has set up a task force involving states, VOLAGS, and Vietnamese-American leaders. Finally, the Bureau for Refugee programs is providing all state coordinators with the annual state-by-state resettlement plans of the voluntary agencies and with monthly reports of scheduled arrivals.

INTERNATIONAL COMMITTEE OF THE RED CROSS

SENATOR LEAHY: According to my information, US contributions to the ICRC have fallen sharply since 1985. How do you decide what to give ICRC out of your annual budget?

AMBASSADOR LAFONTANT: Decisions regarding the funding of ICRC's emergency appeals are made in the context of all humanitarian requirements, with programs addressing life-threatening needs given highest priority and contributions maximized to the degree possible. In 1989, the United States contributed $35.3 million to ICRC's overall budget, $28.1 million of which went to ICRC's emergency appeals. Though they represent relative decreases from past contributions, these figures are higher in absolute terms than both the 1987 and 1988 U.S. contributions to the overall budget and the emergency appeals. By legislation, our recent contributions to ICRC's Headquarters Budget have been no less than 10% of the total.

SENATOR LEAHY: Do you consult with the ICRC on its budget needs before you decide?

AMBASSADOR LAFONTANT: The timing of our own budget process precludes us from basing our budgetary requests on issued appeals from the ICRC. However, we are in constant contact with ICRC headquarters and field delegates through our posts in Geneva and in the field, and we are thus able to compile needs assessments based on both Department and ICRC analyses. By the time we need to make decisions on how to allocate funds between programs throughout a given fiscal year, we have received ICRC's printed appeals and can better gauge ICRC's fiscal and programmatic needs.

SENATOR LEAHY: Is it fair to say that the ICRC is not getting the support it needs to do its job?

AMBASSADOR LAFONTANT: The deficit run by the ICRC in 1989 demonstrates that, as with the UNHCR but to a lesser

degree, contributions from the traditional donors have failed to keep pace with increasing proposed budgets. While maximizing our own contribution to ICRC and responding to unforeseen and urgent requirements through drawdowns from the President's Emergency Fund, the United States has pressed ICRC to intensify its efforts to expand its donor base beyond the traditional 16 donors to include more of the 166 signatories to the Geneva Conventions. ICRC has made some inroads in this area (in 1989, the contributions of the top 16 donors represented 69% of total contributions, down from 86% in 1988), but we feel ICRC must continue its efforts to raise funds from new sources. These include, but are not limited to, the Arab nations, the newly-industrialized countries, and the private sector.

SENATOR LEAHY: If we increase funding for refugee assistance, what portion will go to the ICRC?

AMBASSADOR LAFONTANT: Because we do not allocate funds to ICRC or other organizations based on set percentages of overall budgets or of our overall liabilities, it is difficult to determine beforehand the exact portion of refugee assistance funding that will go to one organization over another. However, ICRC is an international humanitarian organization whose work is of major importance to the United States and, as such, can be certain that the United States will respond to its budgetary needs to the fullest extent possible. As one benchmark, of the $225.6 million which the United States contributed for international assistance in FY 1990, $35.3 million or 15.6 percent, was contributed to ICRC.

PALESTINIANS

SENATOR LEAHY: I am told the budget for the UN Relief Works Agency, which cares for over 2 million Palestinians, is also falling short. What is the situation, especially in the refugee camps? What portion of UNRWA's budget comes from the United States? Do any of the Arab countries make significant donations? What effect has the Palestinian uprising had on UNRWA? Are there any impediments to UNRWA carrying out its refugee relief activities in the Palestinian camps?

Is it correct that you have recently decided to draw $7 million from the ERMA to provide an additional contribution to the UNRWA for the Palestinian refugee effort?

AMBASSADOR LAFONTANT: To begin with the last question, the President has authorized a drawdown of $7 million from the Emergency Refugee and Migration Account (ERMA) for UNRWA to address urgent needs of Palestinian refugees, including those in the Occupied Territories.

The United States is the largest single donor to UNRWA, $57 million in 1990 for its regular budget (including the $7 million from ERMA). UNRWA's regular budget for 1990 is $242 million, thus the U.S. contribution represents 23% of UNRWA's regular budget. Kuwait and Saudi Arabia are the principal Arab Governments among UNRWA's major donors to its regular budget. In 1989 they contributed $1 million and $1.2 million respectively. However, wealthy Arab Governments contribute generously toward UNRWA's special emergency

programs in the Occupied Territories and have historically been major contributors to UNRWA's emergency appeals for Lebanon. Non-wealthy Arab Governments which host large Palestinian refugee populations such as Jordan, Syria and Lebanon, spend millions of dollars annually in direct costs of caring for the Palestinians, primarily for infrastructure, medical care and education.

With regard to the situation in the camps, conditions in Syria and Jordan are generally normal. In Lebanon civil strife continues to affect the refugees, thousands of whom have been displaced and their shelters destroyed, thus requiring special relief and self-help programs to rebuild the shelters. In the Occupied Territories of the West Bank and Gaza, the Palestinian uprising and the Israeli response has affected all aspects of life of the refugees. Most of UNRWA schools and training centers which were closed in 1989 have been re-opened, but extensive curfews and the changed environment in the camps place impediments on UNRWA activities. Nevertheless, UNRWA staff continue to carry out their activities and have proven resourceful in responding to the changed situation.

KURDS

SENATOR LEAHY: One of the most forgotten groups of refugees are the Kurds.

What has happened since the chemical warfare attack by Iraq in 1988 that left hundreds dead? How many Kurds are in camps in Turkey? What use has been made of funds the Committee provided to assist Kurdish refugees? Is there a need for further US assistance.

I am told the Kurds are also suffering abuse by the Turks. What can you tell me about their situation?

AMBASSADOR LAFONTANT: Of the 50,000 Iraqi Kurds who fled the fighting in Iraq in late summer of 1988 and sought refuge in Turkey, about 32,000 remain in three camps in Southeast Turkey where they have been provided basic assistance by the Turkish Government. Although initially conditions in the camps were adequate recently conditions have deteriorated, particularly in the tent camp of Kiziltepe near Mardin.

The international community, through the UN High Commissioner for Refugees (UNHCR) has raised some $14 million (including $5 million from the U.S.) for a program of assistance for the Iraqi Kurdish refugees, thereby helping Turkey share the burden of caring for this refugee group. Although the Turkish Government asked for international funds and reached agreement with the UNHCR on specifics of the program which called for relocating some 13,000 refugees to new housing financed by international donors, in recent weeks the Turks have indicated that they no longer plan to carry out their agreement with the UNHCR. In response, the U.S. and other major donor governments plan to approach the Turkish Government to press for international assistance and protection through UNHCR for the Iraqi Kurdish refugees. We will stress that funds raised by the donors should be used to improve conditions in the camps, particularly for the children and women, and that tents be replaced before the onset of winter.

ETHIOPIA

SENATOR LEAHY: We have heard varying predictions about the possibility of famine in Ethiopia this year. We have also heard complaints about UNHCR's handling of the relief operation there. What is the current situation -- is food getting to the people who need it? Who is causing the problems, the government or the rebels?

AMBASSADOR LAFONTANT: The results of agro-climatic monitoring last summer and fall led to the prediction by the United Nations and the Government of Ethiopia that up to five million people in northern Ethiopia could face famine if relief food were not delivered on a timely basis. It was estimated that some 600-750,000 MT of food would be needed to prevent disaster. To date, the U.S. Government has committed 216,613 MT to Ethiopian famine relief. The total international community pledge is approximately 530,000 MT. There is no doubt that the task of delivering relief has been complicated by the warfare in northern Ethiopia; in particular, the seizure of Massawa port by the Eritrean Peoples' Liberation Front (EPLF) in early February and its consequent closure by Ethiopian Government attacks thwarted the international community's plans for efficient delivery into Eritrea and northern Tigray. At present, food deliveries moving to the affected regions through Ethiopia follow a longer, more tortuous "southern line" from Assab port. So far, the Government of Ethiopia has refused to compromise on measures to re-open Massawa to international relief.

Fortunately, at this point, we are able to judge that the international relief effort has been successful so far in precluding widespread starvation. We judge that some 3 million people are presently in need in northern Ethiopia. As yet, there has been no new influx of refugees/famine victims into Sudan; nor have displaced person camps formed to any extent inside Ethiopia. I would caution, however, that we are coming into the rainy season which we hope will be good for agriculture but which inevitably slows delivery of relief food at the period of peak need.

UNHCR is charged with protecting and helping the Government of Ethiopia to assist an estimated 700,000 refugees - 350,000 from Sudan and 350,000 from Somalia. UNHCR faces formidable constraints. Refugee camps are at remote and inhospitable sites lacking basic natural resources. UNHCR's financial crisis limits its ability to fund these costly relief efforts. Ethiopian government restrictions on access to camps have exacerbated the problem of effective assistance. The Somali National Movement and Sudanese Peoples' Liberation Army (SPLA) presence in eastern/western Ethiopia respectively and their relationships with the Government of Ethiopia complicate protection efforts. For example, in January, a Sudanese refugee camp assisted by UNHCR was overrun during attack by insurgents; the 40,000 refugees were dispersed, some to another refugee camp in Ethiopia, some back to Sudan, and some to an as yet unknown location.

Food distribution is working reasonably well at present. Nonetheless, weak UNHCR management in Addis Ababa is to blame for a share of the problems with the refugee relief efforts. A December 1989 CDC survey of the Somali refugees indicated that the current nutritional

status is stable yet precarious. Of more immediate concern is the inadequate water rations in the Somali camps and the lack of potable water in the Sudanese camps. For our part, we have taken steps to make adequate funding available to UNHCR - including a recent emergency contribution of $4 million for water - and have pressed UNHCR to improve management of the programs. We have done this bilaterally and in concert with the very active donor community in Addis Ababa.

VIETNAMESE REFUGEES

SENATOR LEAHY: How many people are leaving Vietnam by boat these days?

AMBASSADOR LAFONTANT: Between January 1 and March 31, 1990, about 8,700 Vietnamese arrived in first asylum by boat. Last year during the same period over 11,500 people arrived by boat.

SENATOR LEAHY: I understand the Administration has called for a one year moratorium of the British policy of forcibly repatriating Vietnamese refugees in Hong Kong. Has the British Government modified its policy?

AMBASSADOR LAFONTANT: The British Government has not modified its policy. However, no involuntary returns have occurred since the initial one on December 11, 1989, because the Vietnamese have refused to accept additional non-volunteers.

SENATOR LEAHY: Has your call for a moratorium been linked to the establishment of reliable screening procedures, so no political refugees are mistakenly returned against their will? Do the officials making the decisions of whether to grant asylum have up-to-date information on conditions in Vietnam?

AMBASSADOR LAFONTANT: The U.S. call for a moratorium was based on our belief that it is inappropriate to force people to return to Vietnam against their wills until significant change in the social, political and economic situation occurs. Our policy remains to support the UNHCR voluntary repatriation program and to oppose involuntary return of Vietnamese to Vietnam. The safeguards for returnees stipulated in the CPA are not yet fully in place, e.g., complete repatriation counseling, streamlined repatriation applications, adequate reception centers in Vietnam and sufficient UNHCR staff to monitor returnees. We have not linked the moratorium to screening procedures. Officials making screening decisions have access to the U.S. Country Conditions reports as well as information obtained by western embassy staffs in Vietnam.

SENATOR LEAHY: What specific recommendations are you making to improve the screening procedures? What about the appeal procedure, which I understand does not require that any reason be given for denying an appeal, and prohibits the appearance of either the refugee or his lawyers?

ABASSADOR LAFONTANT: The U.S. government will continue to fully support UNHCR in its efforts to implement a fair screening process. To date UNHCR has provided extensive guidance and training to all relevant governments to insure the screening and appeals procedures are reliable. The U.S. has also provided personnel to advise governments on proper screening procedures.

Refugee officers in the field will continue to monitor screening and appeals closely. The UNHCR recently reported that, in response to suggestions, the Hong Kong appeal review boards would begin to provide written explanations for their decisions and that the UNHCR would be permitted to have representatives at the meetings of the review boards.

SENATOR LEAHY: According to Amnesty International, there are frequent reports of torture at Vietnamese "re-education" camps. If the British policy continues, what procedures would be adequate to ensure that these returnees are not mistreated?

AMBASSADOR LAFONTANT: If the British policy of returning asylum seekers involuntarily, outside of a CPA Steering Committee consensus continues, the only monitoring facilities available will by the British embassy staff in Hanoi plus whatever British and Hong Kong Government officials visit Vietnam and make monitoring visits as part of the trip. If however, consensus is achieved, full funding for the CPA is contributed and suffiecient time given, the UNHCR will have built an infrastructure of monitoring staff within Vietnam before mandatory returns begin.

UNHCR FUNDING

SENATOR LEAHY: Ambassador Lyman, in your statement you say UNHCR faces a serious funding crisis. In part, this is due to a drop in the percentage of UNHCR's budget which we contribute. Why has our contribution fallen? What is being done to help UNHCR deal with this crisis? What are the consequences of the funding shortfall?

AMBASSADOR LYMAN: The U.S. FY89 contribution to UNHCR was the highest it has been in absolute terms since 1981 and represented 25% of all contributions to UNHCR. This relative share has remained fairly constant since 1986.

The cause of UNHCR's funding shortfall is not falling contributions but rather the inability of traditional donors to keep pace with increasing needs and opportunities. (In 1989, more was contributed in real terms to UNHCR by its donors than in any single year since 1981, yet UNHCR closed out 1989 with a $38 m deficit in its General Program.)

In response to this funding shortfall, UNHCR's Executive Committee set a General Program spending limit for 1990 of $378 m (UNHCR initially requested $424 m), instructed UNHCR to liquidate the deficit in 1990, and initiated efforts to get the ECOSOC to institute a system-wide review designed to promote greater and more efficient cooperation among UN organizations. In addition, UNHCR implemented very painful but necessary budget and staff reduction exercises, cutting less essential programs across the board in order to avoid an interruption in critical programs and services. Recognizing that the failure of UNHCR to provide protection and basic, life-sustaining relief to millions of refugees would have grave consequences, the United States remains committed to supporting the work of the UNHCR, financially and otherwise, to the fullest extent possible.

SENATOR LEAHY: Will our FY91 UNHCR contribution go up or down, compared with FY90? How about compared with

FY85? What is the trend over the last five years in our contribution to the UNHCR?

AMBASSADOR LYMAN: For FY91, the Administration has requested $110.3 m for UNHCR from the Migration and Refugee Assistance Account. In addition, the Administration has requested a $25 replenishment for the Emergency Refugee and Migration Assistance Fund (ERMA) a substantial portion of which is likely to be needed to respond to UNHCR emergency appeals in FY91. U.S. contributions to UNHCR from all sources (in millions of US$) from FY 85 to FY 90 are as follows:

FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
124.0	105.5	105.5	111.1	125.8	121.0 (est.)

FUNDING FOR THE UNHCR AND ICRC

SENATOR LEAHY: Ambassador Lyman, you testified that funding for refugee assistance will increase in fiscal year 1991 by $46 million over fiscal year 1990. Yet you also said the US contribution to UNHCR would remain at about $110 million. Why, when you agree UNHCR is facing a serious budget shortfall, do we not use some of those additional funds for UNHCR?

AMBASSADOR LYMAN: Initial FY90 availabilities in the Migration and Refugee Assistance (MRA) Account for UNHCR totalled $78 m. After such extraordinary measures as drawing down from the President's Emergency Refugee and Migration Assistance Fund for unforeseen and urgent developments, the passing of a supplemental appropriation, and the mid-year reprogramming of additional AID monies, the total U.S. contribution to UNHCR for FY90 is projected to be $121 m (which includes $10 m in AID money programmed for UNHCR/Cyprus). By contrast, the Administration's initial MRA request for FY91 is $110.3 m, an increase of $32.3 m over the amount initially available for UNHCR in FY90.

SENATOR LEAHY: What about the ICRC? What can it expect to receive in fiscal year 1991?

AMBASSADOR LYMAN: For FY91, the Administration has requested $33.6 m for the ICRC. A small portion of these funds will be used to fund the activities of private voluntary organizations in East Asia, the Near East, South Asia and the Western Hemisphere. ERMA drawdowns are also a possibility, depending on urgent and unforeseen requirements to which we may wish to respond.

QUESTIONS SUBMITTED BY SENATOR FRANK LAUTENBERG

LAUTENBERG-MORRISON

SENATOR LAUTENBERG: I am planning to introduce a two year extension of the Lautenberg-Morrison (L-M) refugee provisions that became law last year. Secretary Baker has said he would support an extension of the law. Do you support such an extension, and if not, what objections do you have?

AMBASSADOR LAFONTANT: I do support an extension of the Lautenberg-Morrison refugee provisions.

SENATOR LAUTENBERG: Before passage of L-M, denial rates for Soviet Jews went to a high of about 36% last

March. Since its passage, they went to 8% for February of 1990, the first month since the law was implemented by regulations. I have been told that INS officials concede that denial rates would go from their current 8% up to 40% without Lautenberg-Morrison being extended. Is this true?

AMBASSADOR LAFONTANT: I must refer you to INS for clarification of this point.

SENATOR LAUTENBERG: I have been told that accoring to Rick Inzunza, the Director of the Office of Refugee, Asylum and Parole, there would not be enough INS interview officers to interview sufficient numbers of Jews to admit the allowed 40,000 quota for FY 1991 if L-M were not extended. That's because, if 40% are denied, he will have to interview many more Jews just to find enough that qualify. With only six officers, he doesn't think he has the manpower to conduct that many interviews. Is this correct?

AMBASSADOR LAFONTANT: The FY 91 Soviet refugee admissions ceiling will be established by the President after the Executive/Legislative branch consultations later on in the current fiscal year. While the majority of Soviet refugees admitted to the U.S. are Jews, a significant number of Evangelical Christians and other minorities are also included. I must refer you to INS for their estimate of the manpower that will be necessary in FY 91 to conduct interviews in Moscow.

SENATOR LAUTENBERG: Do you believe that the "immigrant in the special interest" legislation, pending in the House, would, if passed, help those people who are designated as categories under the L-M law -- Soviet Jews, Soviet Pentecostals, Ukrainian Catholic and Orthodox, and those from Laos, Cambodia and Vietnam?

AMBASSADOR LAFONTANT: The Administration has taken the position that the 150,000 special immigrant numbers which would be made available under this legislation over a five year period should be concentrated on groups of particular humanitarian concern to the United States. In our view, one group in need of additional opportunities for immigration to the U.S. would be Soviets. Other nationalities of concern to the U.S., such as Vietnamese would also be potential recipients of these numbers.

QUESTIONS SUBMITTED BY SENATOR MARK HATFIELD

FORMER REEDUCATION CAMP DETAINEES

SENATOR HATFIELD: At the present rate of processing, it could take years to resettle former re-education camp detainees from Vietnam. Why isn't this effor proceeding faster?

AMBASSADOR LAFONTANT: We cannot state at this time how long it will take to process all eligible applicants. We have set no time limit for the program. We now have over 100,000 applications on file, and that number could change as more former detainees apply to ODP. Refugee admission ceilings are set annualy by Presidential Determiniation after consultations with Congress, taking into account our various refugee priorities in Southeast Asia and around the world. So it is impossible to make multi-year commitments for any category of refugee

admissions. We do expect, however, that admissions under the reeducation program will be increasing significantly as the Amerasian program winds down.

COMPREHENSIVE PLAN OF ACTION AND HONG KONG

SENATOR HATFIELD: Please give me an update on the status of the Comprehensive Plan of Action. What specific steps is the U.S. taking to ease the crisis in Hong Kong?

AMBASSADOR LAFONTANT: The Steering Committee of the Comprehensive Plan of Action has achieved progress on many important issues. Since agreement to the CPA, the majority of countries in Southeast Asia have accepted Vietnamese boat people and provided first asylum and UNHCR access with the lamentable exception of Malaysia where there is continued evidence of push-offs. The U.S. has vigorously protested Malaysia's push-offs and will continue to do so.

Other areas of progress include the orderly departure program, screening, resettlement, voluntary repatriation and the Lao program.

There is an impasse on the issue of mandatory repatriation within the CPA process. At the end of the May 17-18 technical meeting in Manila, the United Nations High Commissioner for Refugees was asked to bring the gravity of the deadlock on mandatory repatriation to the attention of the governments concerned. It was recommended that a steering committee meeting be convened in the near future to follow up on discussions to resolve this issue.

The U.S. remains committed to resolving this issue and is prepared to consider the matter further at the next steering committee meeting which is not yet scheduled.

On repatriation, our policy remains to support the UNHCR's voluntary repatriation program and to oppose involuntary return of Vietnamese to Vietnam.

The 1989 crisis situation in Hong Kong has eased. Arrivals in the first four months of calendar year 1990 totaled 1,436, a 66% decrease compared to last year, and, due to voluntary repatriation and resettlement, the total population of asylum seekers has remained stable since last August.

The U.S. Government remains concerned about camp conditions, fair screening and overall implementation of the CPA in Hong Kong. We are in frequent contact with UNHCR and with the Hong Kong and British authorities regarding camp conditions, screening, and voluntary repatriation.

We are fullfilling our obligations under the CPA, which provides specific support to Hong Kong. We have announced a total pledge of $2 million to the CPA. We specifically made available $500,000 for the development of the Regional Transit Center in the Philippines, being constructed to relieve partially the overcrowding in Hong Kong.

I would like to review how our effort affects Hong Kong. Since the ICIR (from July 1989 to March 1990), some 4,600 people have departed Hong Kong from the pre-cutoff date population. Of these about 1,900 or 38% are U.S. bound. Current planning indicates the U.S. will resettle a total of about 3,300 people from Hong Kong's pre-cutoff date population of 11,000.

The U.S. has also pledged to take 50 percent of those in the post-cutoff population determined to be bona fide refugees.

QUESTIONS SUBMITTED BY SENATOR ARLEN SPECTER

SOVIET JEWS RESETTLING IN ISRAEL

SENATOR SPECTER: As is well known, the United States played an instrumental role in the changing Soviet policy which has allowed unprecedented numbers of Jews, Evangelical Christians, and other Soviet citizens to leave the Soviet Union. Concurrent with the opening of Soviet emigration doors, altered U.S. refugee policy forced many Soviet Jews to choose to relocate to Israel. As such, the United States has some responsibility in helping Israel to absorb the newly-arriving immigrants. Reports indicate that 1990 will witness as much as a sixteenfold increase over 1989 in the number of Soviet Jews entering Israel. Assuming that the proposed housing loan guarantees for the construction of housing in Israel is approved, what additional funding, and what additional programs will be necessary for 1990 and beyond to help in the successful absorption of the newly-arriving immigrants? Will the FY 1990 $25 million earmark for the resettlement of Soviet Jews in Israel be sufficient for FY 1991, especially considering that both Houses of Congress have approved a $5 million supplemental appropriation for this program for FY 1990? What potential economic, political, social, and cultural problems do you foresee arising in the coming years related to this massive immigration?

AMBASSADOR LAFONTANT: In response to your questions concerning what additional programs and additional funding will be necessary for FY 1990 and beyond to help with the absorption in Israel of increasing numbers of Soviet immigrants, I am assuming that you refer to the U.S. Government grant program to the United Israel Appeal (UIA) for refugee resettlement in Israel. First of all, the U.S. grant to the U.I.A. has historically represented only a small percentage of the overall costs of refugee resettlement in Israel. The U.I.A. raises approximately 70% of the Jewish Agency budget, most of the money coming from private contributions from the American Jewish community. The Government of Israel also bears certain costs of absorbing new immigrants. Further, we understand that world Jewry is seeking $600 million over the next three years to help with the costs of resettling the new immigrants.

Increasing numbers of refugees worldwide, many of whom are in dire need without the opportunity to resettle in another country and without resources from communities concerned with their well-being, are placing a heavy demand on limited U.S. refugee assistance resources. Hence, we believe that $30 million for FY 1991 is an appropriate contribution from limited U.S. Government refugee funds to assist Israel absorb the new immigrants. With regard to your question asking what potential economic, political, social and cultural problems we foresee related to this massive immigration, I would refer you to the Israeli authorities who are dealing with issues relating to the influx of Soviet immigrants.

NONDEPARTMENTAL WITNESSES

STATEMENT OF NINA HALE, ACTING EXECUTIVE DIRECTOR, REFUGEES INTERNATIONAL

Senator HATFIELD. Court Robinson of the U.S. Committee for Refugees. Why does not the whole panel just come up to the table here and take turns. Mr. Le Xuan Khoa, president of the Indochina Resource Action Center, and Nina Hale, acting executive director of Refugees International.

We will place your entire statement in the record and you may proceed to highlight or summarize as you wish. I am happy to welcome each of you here. We appreciate very much the role that you have played in nonpublic agency representation.

Who wants to go first?

Ms. HALE. Good morning and thank you. My name is Nina Hale. I am the acting executive director of Refugees International. Thank you very much for this opportunity to give testimony regarding critical issues relating to the comprehensive plan of action and our concerns for the protection of Vietnamese refugees.

I should like to add also that I have recently traveled in Southeast Asia. I have visited the camps and, although time does not permit this morning, I would be happy to answer any specific questions you might have.

I would like to start my testimony by telling you something that pains me greatly. On February 19, 1990, Mr. Nguyen Van Hai was found dead at the Whitehead Detention Center in Hong Kong. Mr. Hai had hung himself, leaving a note saying: "I am killing myself in protest against the screening policy of the Hong Kong Government, which is strict and unfair."

Mr. Hai had been found by the Hong Kong authorities not to be a refugee. Sadly, whether driven by anger or despair, Mr. Hai was not the first to protest in this deadly manner. Since Great Britain forcibly repatriated 51 Vietnamese on December 12, at least 11 others have committed suicide.

I am frightened to think that these acts of protest will be taken in vain. Equally disturbing is that they are the product of despair. Such despair is symptomatic of the unraveling of the multilateral framework envisioned by the CPA.

Deteriorating conditions in the camps represent another. The conditions under which asylum seekers in the region are forced to live are despicable and they are particularly bad in Hong Kong, and I suspect they have been made so deliberately.

As I stated in greater detail in my written testimony, Refugees International believes that the lack of consensus on the issue of mandatory returns is the key to protection of Vietnamese asylum seekers.

As Congressman Atkins pointed out, this poses a cruel and difficult dilemma. There is no doubt that mandatory repatriations under any circumstances should be avoided. However, without a multilateral framework like the CPA, the individual rights of Vietnamese asylum seekers will surely be compromised and more lives may be lost.

Without a consensus, the CPA may be lost forever and instead anarchy will determine the fate of not just the 43,000 in Hong Kong, but the 30,000 others in the region and for those who may be contemplating leaving Vietnam in the future.

Britain's unilateral forced repatriation effort, the shameful push-off policy carried out by Malaysia, and reports that other first asylum countries are pursuing mandatory repatriation efforts are but a preview of the crisis that would ensue in the absence of a multilateral framework. And as the tragic case of the Malaysian boat pushoffs indicates, further mandatory repatriations may take place in waves that are even more threatening to asylum seekers than the British model introduced on December 12.

Therefore, with great difficulty Refugees International urges the administration to take a more flexible approach to the question of mandatory repatriation to save the CPA. This may involve further compromise, but not capitulation, for compromise would be premised upon commitment by all concerned to implement fully the fundamentals of the CPA.

Primary among these would be the immediate restoration of first asylum and dramatic improvements in the conditions under which people have to live in the camps. This would be particularly true for Hong Kong.

Moreover, further mandatory repatriations should be taken as a last resort, and the satisfaction of measurable standards should be the precondition. These would include a fair and expeditious regionwide refugee status determination process, firm guarantees that no mandatory repatriations will occur so long as there are significant numbers of volunteers signed up to go back, firm guarantees from the Government of Vietnam that those returned would not be persecuted or significantly discriminated against, and of course a monitoring mechanism to ensure that access to those who have been returned is available and people can check up on them.

In addition, there should be an implementation of an effective public education campaign in Vietnam and in the camps to provide accurate information about the CPA and what it portends.

PREPARED STATEMENT

Finally, there should be adequate funding for the UNHCR so that it may fully implement its mandate of protecting refugees and of facilitating implementation of the CPA.

With the United States exercising the full weight of its political, financial, and moral authority, full implementation of the CPA can be achieved and our humanitarian objectives met. The Indochinese refugee program under U.S. leadership was one of the great humanitarian achievements of recent times. We should not fail in our leadership now as we approach the end game in this drama.

Thank you.

Senator HATFIELD. Thank you, Ms. Hale.
[The statement follows:]

STATEMENT OF NINA HALE

Mr. Chairman, thank you for this opportunity to give testimony regarding the implementation of the Comprehensive Plan of Action and the implications it holds for the protection of Vietnamese refugees. The remarks I am about to make include information gathered on my recent trip to Hong Kong, Thailand, and Malaysia to survey the current situation facing Vietnamese boat refugees.

I regret that I must start my testimony by telling you about the death of Mr. Nguyen Van Hai. On February 19, 1990, Mr. Hai was found dead at Whitehead Detention Center, a camp in Hong Kong holding 20,000 Vietnamese asylum seekers. Mr. Hai hung himself with his belt, leaving a note saying that "I am killing myself to protest against the screening policy of the Hong Kong Government which is strict and unfair."

Sadly, whether driven by anger or despair, Mr. Hai was not the first to protest in this deadly manner. Since Great Britain forcibly repatriated 51 Vietnamese on December 12, 1989, at least 11 others have attempted suicide. Most of them have slashed themselves using homemade knives. One tried to burn himself by covering himself with newspapers, which he set alight. Without petrol, however, witnesses were able to rescue him before died.

The Comprehensive Plan of Action

These forms of protest are the desperate acts of people who hope that their sacrifice will convince the world of the seriousness of the plight of the Vietnamese asylum seeker. That their plea -- no mandatory repatriation to Vietnam -- will likely go unheeded is symbolic of the dramatic change in the attitude of the international community towards those who have fled Vietnam.

The long standing presumption that any Vietnamese who survives the voyage to a country of first asylum is a refugee, eligible for resettlement in the West, is no longer operative. Since the endorsement of the Comprehensive Plan of Action (CPA) in Geneva last June, refugee status must be affirmatively demonstrated in the course of interviews conducted by officials of each of the first asylum countries. Those found to be refugees by the first asylum state will be eligible for resettlement. Those who cannot convince screening officials that they should have refugee status, it was agreed, should go back to Vietnam.

The language of the CPA stresses that in the first instance, every effort should be made to encourage non-refugees to return to Vietnam voluntarily. For the Vietnamese who have continued to flee, many at great risk, during the negotiations leading up to the endorsement of the CPA and since its approbation, however, the idea of returning to Vietnam is anathema -- in principle or otherwise. Not only were they largely ignorant of the policy shift, but for them, nothing has altered. Vietnam is still run by a communist government whose policies deny its people the freedom and opportunities they know exist in other parts of the world. While some among us may disagree with their perspective, we cannot deny the consequences, not least among them being that rate of voluntary returns will be slow and various forms of protest, including suicide, may continue.

Even so, before the ink was dry on the CPA, the question of involuntary returns became the sticking point. Almost immediately, Great Britain and Hong Kong began pressing for the need to deter new arrivals in Hong Kong by instituting a mandatory repatriation policy. More dangerously, Malaysia, seeking to demonstrate the new linkage between first asylum and the need for certainty of returns of non-refugees, embarked on an erratic, but effective, policy of turning away large numbers of boats.

The United States' unwillingness to concede to such premature pressure for an agreement on involuntary returns is commendable -- in principle, as was its willingness at the January meeting in Geneva to concede to a one year moratorium. However, the United States' reticence did not prevent the forced returns of 51 Vietnamese from Hong Kong in December and may not be able to do so in future.

While supporting the Administration's positions on involuntary repatriation in general, Refugees International fears that we are on the verge of anarchy in the region. We fully expect that the British will move forward unilaterally on involuntary repatriation while there are still deficiencies in the screening procedure. Moreover, we are concerned that these repatriations will go forward in the absence of adequate monitoring of the conditions faced by returnees. Especially disturbing are the indications that other first asylum countries, specifically, Malaysia, Thailand, and most recently, the Philippines, are moving ahead unilaterally on mandatory repatriation. And as the tragic case of the Malaysian pushoffs

demonstrates, repatriations from those countries may occur in ways that are even more threatening to asylum seekers from Vietnam than the "British model" introduced on December 12.

Under the present circumstances, Refugees International believes that the United States must adopt a far more pro-active policy both to restore first asylum and to ensure the viability of the CPA. The United States has an obligation to put the full weight of its political, financial and moral leadership behind the only existing way to ensure the protection of human rights for Vietnamese asylum seekers -- the CPA. The Indochinese refugee program under United States leadership was one the great humanitarian achievements of recent times, with almost a million people resettled around the globe. We should not fail in our leadership as we now approach the end game in this drama.

Living Conditions in First Asylum Camps:

Refugees International is gravely concerned that the disintegration of the CPA is exacerbating the deplorable conditions under which asylum seekers are forced to live in the camps. While many of the problems described below are endemic to refugee situations, where the needs far exceed financial resources, Refugees International fears that in Hong Kong, and perhaps in the other countries of first asylum, the authorities are deliberately refusing to improve living conditions. To put it bluntly, people are being treated like animals.

This serves two wholly unacceptable and perverse purposes: First, the worse the conditions are, the more likely it will be that people will volunteer to return. Returns under these circumstances casts serious doubt on the definition of a voluntary repatriation program. Second, if people are treated like animals, they will act like animals. Were we to lose the accountability the CPA provides, the first asylum countries will have license to do with the unwelcome populations as they see fit. As suggested above, this could be wholesale mandatory repatriations without adequate safeguards for monitoring returns or worse yet, refoulement. By making the plight of the refugee population appear to be undeserving of international concern, perhaps the first asylum countries think they will be able to limit the level of condemnation that will surely follow such a step.

-- Serious overcrowding - The shortage of living space is becoming dangerous. Malaysia's island camp, Pulau Bidong, with a population of almost 13,000. is filled to twice its capacity. Housing designed to accommodate

6-8 refugees per unit is currently occupied by as many as 75 people. Refugees have been digging under the foundations of many of the houses in an attempt to make additional housing space. This makes the buildings structurally unsound, creating the risk, especially in the rainy season, that the buildings will collapse.

In Hong Kong, large numbers of asylum seekers are still living in tents and there is talk of having to use ferries again. Those lucky enough to be housed in permanent structures are crammed into buildings with row upon row of three-tiered wooden platforms affording them personal space of ten square feet, the size of a small rug. While the government has requested money to build a camp on the island of Tai Ah Chau, which would accomodate 10,000 people. Approval has not yet been given, but even if it were, the camp would not be complete before October, long after the height of the sailing season.

Overcrowding has also required the authorities to use space initially designated for schools, vocational training, recreational purposes, and offices for living accommodations. This leaves the camp residents with nothing constructive with which to fill their long days.

-- Outbreaks of violence - Overcrowding by itself can produce destructive behavior, but uncertainty about their future and the lack of accurate information has exacerbated the potential for violence. Incidents of violence among the Vietnamese and confrontations between the forces that manage the camps and the Vietnamese are becoming more and more frequent.

What started out as peaceful demonstrations to protest the screening and the mandatory repatriation, have recently turned into riots in Hong Kong, involving violent clashes with the camp authorities. Homemade, but unquestionably deadly, weapons are confiscated regularly.

Violence in the camps has been exacerbated by the emergence of rival gangs and factions engaged in criminal behavior. According to camp workers, innocent people are terrorized by these gangs, and in some instances being intimidated into not volunteering to return. These "bad elements" exert considerable power, in some instances, aided by the authorities who have appointed them to the so-called Peace Committees. Efforts to control crime are hindered by unwillingness of victims to come forward, for fear that getting involved will affect their chances of getting screened in. The other fear is, of course, of physical retribution.

-- Security, particularly for women and unaccompanied minors, remains a critical issue that is not being properly addressed. The doors to the buildings do not lock, and individual platforms have only cloth curtains for privacy. Rapes and assaults occur with regularity.

-- Medical care - The public resentment and dislike of refugees, especially in Hong Kong, is reflected in the attitude of the guards and medical staff. This results in limited availability of medical services, unreasonable restrictions on service providers

regarding types and amounts of services, lack of adequate medical facilities and supplies, and unnecessarily restricted access to providers.

The failure to identify infectious conditions, particularly with a population living in significantly overcrowded facilities, is a matter of serious concern. Routine medical testing upon arrival or thereafter is generally limited or non-existent. Visiting medical teams have identified all too many cases of communicable diseases, which are not being properly treated or quarantined. An outbreak of cholera in Hong Kong last summer is but one example of the dangers posed by these conditions. A particularly serious concern is drug abuse bringing with it the threat of AIDS.

Overcrowding has produced serious sanitation problems -- the most obvious being a shortage of toilets. In some camps, one toilet often serves as many as 150 people. In addition, overuse of the sewer lines have resulted in raw sewage being discharged onto the beach, creating health and environmental problems.

Conclusion

Refugees International believes that the United States must act to preserve first asylum and to prevent deaths at sea, and to assure the protection of those already in the first asylum camps who are awaiting resettlement or repatriation. At this point in time, a more flexible approach to the question of mandatory repatriations may be required.

In so doing, the United States can and should exercise strong leadership by stressing the critical need for wholehearted and all-out effort by the international community to implement the CPA in all of its aspects, especially with regard to safe arrival, and humane and fair treatment for all Vietnamese asylum seekers. Finally, affirmation the CPA in its entirety will also send a signal to the Vietnamese. I, for one, do not want others to commit suicide in hopes that the United States will rescue them, unless we are prepared to make good on their hopes.[1] Ultimately, mandatory returns of Vietnamese may become a reality. However, unless we act soon, we will have no say in how the process is carried out, with the result that individual human rights will be severely compromised.

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[1] Refugees International has long advocated for an interim solution in the form of an international holding center where those found not to have left Vietnam for reasons that would not qualify them under the Geneva Convention but who qualify as refugees sur place could be helding pending changes in Vietnam.

Recommendations:

1. The United States should continue to provide resettlement opportunities to those Vietnamese found to be refugees, in particular, to fulfill its resettlement commitments under the CPA.

2. The United States should seek to assure that mandatory repatriations do not occur unless the following measures are in place:

Firm guarantees from the countries of first asylum on the restoration of the safe asylum.

A fair and expeditious refugee status determination process that includes counseling and right of appeal.

A workable system for expeditious movement of voluntary returnees to Vietnam under conditions of safety and dignity.

Firm guarantees from countries of first asylum that no mandatory returns will take place so long as there are significant numbers of volunteers willing to return.

Expedited movement of returnees with firm guarantees from the government of Vietnam, made in an international forum, that returnees will not be subject to criminal punishment or significant discrimination for having left the country. Ideally, this should include abrogation of the laws punishing illegal departures.

Establishment of effective monitoring of returnees by a competent international authority, including firm guarantees from the government of Vietnam that international monitors will have full access to returnees.

3. The United States should exercise leadership to assure that an effective public information campaign is conducted in Vietnam to provide accurate information about the CPA and about camp conditions in first asylum countries.

4. The United States should exercise leadership to assure adequate international funding for UNHCR so that it may fully implement its mandate of providing care and protection to refugees and of facilitating the implementation of the CPA. Specific measures should include:

Replacement of host country authorities by the UNHCR in managing the camps.

Expansion of existing camps to alleviate problems associated with overcrowding.

Translations of relevant press releases, newspapers, and other educational materials that could be regularly posted in central locations in the camps.

Replacement of host country authorities by voluntary agencies as providers of medical care wherever possible.

Implementation and expansion of programs for job training and education within the camps, perhaps in conjunction with development oriented programs in Vietnam.

Resources to ensure sufficient staff to monitor the screening procedure and the appeals process.

STATEMENT OF DR. LE XUAN KHOA, PRESIDENT, INDOCHINA RESOURCE ACTION CENTER

Dr. KHOA. Thank you, Senator. I would like to thank you. I believe this hearing is very timely because of the urgent need to preserve the comprehensive plan of action, which is on the verge of collapse as a result of the failure of governments to reach a consensus at the last steering committee meeting.

This lack of agreement has undermined international confidence in the cooperation called for by the CPA and has led to various bilateral negotiations between first asylum countries and Vietnam. The result is that the state of first asylum and protection for refugees in the region hangs in a precarious balance.

The Indochina Resource Action Center has clearly observed international efforts to implement the CPA, identify problems, and propose practical recommendations. Our paper, entitled "Review of the Comprehensive Plan of Action and Recommendations for Effective Implementation," represents our serious concerns for a positive resolution of these problems. I would like to submit it in its entirety to this committee for the record.

Senator HATFIELD. It will be received.

Dr. KHOA. Recognizing that the CPA has generated several good results, such as expansion of the orderly departure program and the expedited resettlement of long stayers, we have serious reservations regarding the way in which three key components of the CPA have been implemented to date.

These are the reception and treatment of new arrivals, the determination of refugee status, and the repatriation of people determined not to be refugees. The screening process in Hong Kong is seriously flawed. This was first pointed out by IRAC in a November 1988 study and has since been confirmed by reports by the Lawyers Committee for Human Rights, by Amnesty International, and most recently by the Women's Commission on Refugee Women and Children in their forthcoming report.

I am pleased to learn that an international group of human rights lawyers, including some in Hong Kong, supported by the Vietnamese-American community, has just won the first round of legal actions challenging the refugee screening process in the Hong Kong High Court.

Until a fair screening process and an effective mechanism for safe return are in place, we will continue to oppose any move to repatriate the screened-out. As you well know, the CPA outlined clear provisions regarding the return of screened-out asylum seekers.

Recognizing that there might be problems in getting a voluntary repatriation program started, the CPA indicated that there must be a reasonable period of time in which to promote voluntary repatriation. However, last December Britain and Hong Kong instituted a plan for forced repatriation, a move which caused deep concern and condemnation from most of the nations of the free world, including many members of the British Parliament, the European Parliament, and English and Hong Kong citizens. I have with me a petition signed by 15,383 Hong Kong residents against forced repatriation.

Britain and Hong Kong's bilateral forced repatriation program not only violates the provisions of the CPA, but, more seriously, discredits any trust that asylum seekers might have had in the international authorities, including those nations party to the CPA and the United Nations High Commissioner for Refugees.

It is especially timely to note that in endorsing the CPA the international community conceded that forced repatriation cannot stem the flow of refugees from Vietnam. Until root causes—civil, political, and economic conditions—improve there, people will continue to flee.

A voluntary repatriation program could become a viable alternative to forced repatriation, but only if sufficient time and resources are committed to implement an effective public information campaign and to establish an international monitoring mechanism that guarantees that asylum seekers can return in safety and dignity.

In this vein, we are encouraged that the UNHCR has agreed to consult with the Vietnamese-American community on the CPA and their role in its implementation. In fact, I am pleased to announce that the UNHCR special advisor on East and Southeast Asia will be visiting the United States to address members of the Vietnamese community under IRAC arrangement over the next 10 days.

The involvement of the overseas Vietnamese in the implementation of the CPA is essential to its success and should be supported by all parties concerned. So far the asylum seekers do not put much trust in anyone other than their own compatriots, and to date the overseas Vietnamese community has encouraged them to hold out for any option other than repatriation.

It is our belief that voluntary repatriation is not acceptable until and unless adequate safeguards and guarantees of safety and dignity for the returnees are in place. In addition, it is essential for overseas Vietnamese to be involved in the monitoring program to assess its effectiveness and to convey the information back to the screened-out populations.

Despite the international community's intent to achieve a durable solution to the problem, it is now clear that the CPA is only a temporary mechanism designed to maintain refuge and first asylum. As I mentioned earlier, the critical factor will be the resolution of the root causes which prompt people to flee. The most durable and long-term solutions and the most reliable measures for humane deterrence will be those which help to create stable and humane conditions at home.

The necessity for significant and constructive change is fueled by new realities evolving in the world landscape. We stand perhaps at one of those historical watersheds from which numerous streams are rapidly flowing.

It is time now for the international community, including the United States, to begin taking steps to address those conditions which are at the root of the refugee exodus. It is disappointing to see that Vietnam is still trying to resist the irreversible trend toward democracy and freedom, and it is no wonder that people are fleeing. The wonder is that the numbers are not higher.

PREPARED STATEMENT

As in Eastern Europe, the winds of change are blowing in the countries of Indochina. We know that there are individuals in the Government of Vietnam who are pushing for significant liberalization. The aspirations of the Vietnamese people for a free economy and a democratic system are clear, but they cannot achieve these changes alone. They need our help to move forward.

Without these changes, the Vietnamese refugee problem remains unresolved. The tragic plight of Vietnamese boat people will continue.

Thank you.

Senator HATFIELD. Thank you, Mr. Khoa.

[The statement follows:]

STATEMENT OF LE XUAN KHOA

Mr. Chairman and distinguished Members of the Subcommittee, I would like to thank you for this opportunity to speak before you on the subject of the situation of Southeast Asian refugees.

Today's hearing is very timely because of the urgent need to preserve the Comprehensive Plan of Action (CPA) – which is on the verge of collapse as a result of the failure of governments to reach consensus at the last two Steering Committee meetings. This lack of agreement has undermined international confidence in the cooperative process called for by the CPA, and has led to various bilateral negotiations between first asylum countries and Viet Nam. The result is that the state of first asylum and protection for refugees in the region hangs in a precarious balance.

The Indochina Resource Action Center has closely observed international efforts to implement the CPA, identified problems, and proposed practical recommendations for consideration by all parties. Our paper, entitled "Review of the Comprehensive Plan of Action and Recommendations for Effective Implementation" represents our serious concerns for a positive resolution of the refugee problem. I would like to submit it, in its entirety, to the Subcommittee for the record.

While recognizing that the CPA has generated several good results, such as expansion of the Orderly Departure Program and the expedited resettlement of long-stayers, we have serious reservations regarding the way in which three key components of the CPA have been implemented to date. These are the reception and treatment of new arrivals, the determination of refugee status, and the repatriation of people determined not to be refugees.

Within the five-minute limit for oral presentations today, I want to focus on two major problems that endanger the whole CPA: "screening" in Hong Kong and what we believe are precipitous actions by the British government to forcibly repatriate "screened-out" Vietnamese asylum-seekers. My colleagues, Ms. Nina Hale, of Refugees International, and Mr. Court Robinson, of the U.S. Committee for Refugees, will be addressing the denial of first asylum, and other critical issues.

Screening

The screening process in Hong Kong is seriously flawed. This was first pointed out by IRAC in a November 1988 study, and has since been confirmed in reports by the Lawyers' Committee for Human Rights, by Amnesty International, and most recently by the Women's Commission on Refugee Women and Children in their forthcoming report.
Some of the problems cited include:

1. Asylum-seekers have no right to legal representation in the first instance.

2. The screening authorities in Hong Kong lack sufficient knowlege of conditions in Viet Nam to make credible determinations of refugee status.

3. The quality of the interpreters used by the Immigration authorities is appalling. These are ethnic Chinese Hong Kong residents whose knowledge of Vietnamese is often at a grade school level; they are not familiar with political and economic terms currently in use in Vietnam. In some cases, the asylum-seeker's knowledge of English is better than the interpreter's knowledge of Vietnamese.

4. At the appeals stage, asylum-seekers have no right to request appearance before the Refugee Status Review Board. Only 10 percent of those who appeal are, in fact, represented by UNHCR-contracted lawyers, leaving the rest without free representation. The Board makes its determination on the basis of the paper file and, in the case of that small percentage of persons who are represented (by the Agency for Volunteer Service – AVS), the information that AVS is able to add to the file.

5. The Review Board gives no reasons for negative decisions. Although the Immigration Department is required to enter all comments/statements in the asylum-seeker's file; this is not done in practice. There is a summary only, not a transcript – in English. Selective notes are taken; the forms are filled in afterwards. The statement (even though it has been translated from Vietnamese into Cantonese and then into English) is not read back to the interviewee.

To illustrate, let me read you a just a few of the many statements gathered in Hong Kong:

> *I said that my sister is in prison in Viet Nam, but the Immigration Department noted in my file that my sister lives in her own home and is a housewife.*
>
> *I said that I grew up Catholic because my family is Christian. But when I re-read the file* [in preparation for appeal] *it said "My house is far from the church. You cannot reach it."*

I am pleased to learn that a group of international human rights lawyers – including some in Hong Kong – supported by the Vietnamese-American Community, has just won the first round of legal actions challenging the refugee screening process in the Hong Kong High Court. Until a fair screening process, and an effective mechanism for safe return are in place, we will continue to oppose any moves to repatriate the "screened out."

Repatriation

As you well know, the CPA, ratified last year in Geneva by 76 countries, outlined clear provisions regarding the return of "screened-out" asylum-seekers. Recognizing that there might be problems in getting a voluntary repatriation program started, the CPA indicated that there must be "a reasonable period of time" in which to promote voluntary repatriation. It clearly stipulates that "in the first instance, every effort must be made to encourage voluntary repatriation."

However, within only six months of ratification of the CPA, Britain and Hong Kong instituted a plan for forced repatriation – a move which caused deep concern and condemnation from most nations of the free world, including many Members of the British Parliament, the European Parliament, Hong Kong citizens, the United Nations, as well as scores of countries around the world.

Britain and Hong Kong's bilateral forced repatriation program not only violates the provisions of the CPA but, more seriously, discredits any trust that asylum-seekers might have had in international authorities, including those nations party to the CPA and the United Nations High Commissioner for Refugees (UNHCR).

It is especially timely to note that – on the verge of Britain's threat to forcibly repatriate thousands more asylum-seekers – in endorsing the CPA, the international community (including Britain) conceded that forced repatriation cannot stem the flow of refugees from Viet Nam. Until root causes – civic, political, and economic conditions – improve there, people will continue to flee.

A voluntary repatriation program could become a viable alternative to forced repatriation, but only if sufficient time and resources are committed to implement an effective public information campaign and to establish an international monitoring mechanism that guarantees that asylum-seekers can return in safety and dignity.

Involvement of Overseas Vietnamese

In this vein, we are encouraged that the UNHCR has agreed to consult with the Vietnamese-American community on the CPA and their role in its implementation. In fact, I am pleased to announce that Mr. Alexander Casella, UNHCR Special Advisor on East and Southeast Asia, will be visiting the U.S. to address members of the Vietnamese community in San Jose and Orange County, California; Dallas, Texas; Chicago, Illinois; and Washington, D.C. over the next ten days.

The involvement of the overseas Vietnamese in the implementation of the CPA is essential to its success and should be supported by all parties concerned, including the U.S. government. So far, the asylum-seekers do not put much trust in anyone (including UNHCR) other than their own compatriots. And to date, the overseas Vietnamese community has encouraged them to hold out for any option other than repatriation.

It is our belief that voluntary repatriation – if this is the only option – is unacceptable until and unless adequate safeguards and guarantees of safety and dignity for the returnees are in place. In addition, it is essential for overseas Vietnamese to be involved in the monitoring program to assess its effectiveness in protecting the rights of the returnees and to convey accurate information to the "screened-out" populations.

Solutions

Despite the international community's intent "to achieve a durable solution to the problem," it is now clear that the CPA is only a temporary

mechanism – a holding action designed to maintain refuge and first asylum. As I mentioned earlier, the critical factor will be the resolution of the root causes which prompt people to flee. I want to emphasize that the most durable of long term solutions, and the most reliable measures for "humane deterrence," will be those which help to create stable and humane conditions at home.

The necessity for significant and constructive change is fueled by new realities evolving in the world landscape. We stand, perhaps, at one of those historical watersheds, from which numerous streams are rapidly flowing. It is time now for the international community, including the United States, to begin taking steps to address those conditions which are at the root of the refugee exodus. It is disappointing to see that Viet Nam is still trying to resist the irreversible trend toward democracy and freedom. And it is no wonder that people are fleeing; the wonder is that the numbers are not higher.

As in Eastern Europe, the winds of change are blowing in the countries of Indochina. We know that there are individuals in the government of Viet Nam who are pushing for significant liberalization; the aspirations of the Vietnamese people for a free economy and a democratic system are clear. But they cannot achieve these changes alone. They need our help to move forward. Without these changes, the Vietnamese refugee problem remains unresolved. The tragic flight of Vietnamese boat people will continue.

STATEMENT OF COURT ROBINSON, POLICY ANALYST, U.S. COMMITTEE FOR REFUGEES

Mr. ROBINSON. Thank you, Mr. Chairman, for the opportunity to present the views of the U.S. Committee for Refugees. I would like to use the time that I have to focus on the issue of Malaysia and the pushback crisis there.

I feel very strongly that the solution is available and can only come through consensus on the issue of repatriation of the screened-out, as well as new commitments from the United States on resettlement and resources.

The CPA, we should remember, was designed to be implemented in whole cloth. It has not been implemented in whole, but rather in patches. I think nowhere is this more true than in Malaysia. Since May, Malaysian authorities have pushed back more than 4,000 Vietnamese asylum seekers. Some of the boats have been intercepted and turned back on the water. Others were allowed to land and reprovision before being towed back.

The figures we have document those who have arrived safely in Indonesia. There is no way of knowing how many boats never reach land again.

Given the new rash of pirate violence in the southern Gulf of Thailand and the inherent risks of ocean travel in small boats, it is very hard to imagine that the death toll is not significantly higher than the six people we know about. But whatever the true figures, we should be very clear that for the last 10 months Malaysia has been engaged in a systematic, deliberate, and dangerous abuse of the right to seek and enjoy asylum.

We know that our Government has been meeting regularly with Malaysia to find a way to halt this abuse. We wish that it had been expressive of its concerns more speedily in public and more vigorously in public. We believe that the Government should have stood with its colleagues at the U.N. High Commissioner for Refugees in protesting the incident in October that caused the death of five people from dehydration, starvation, and exposure. At the very least, I think this might have clarified more quickly just how much was at stake.

I think that what is at stake is the CPA itself. We believe that it provides the best protection available right now in Southeast Asia. That may not be saying much, but the alternatives we feel are unspeakable.

Malaysia has made it clear that the cost of ending pushbacks is full international consensus on the repatriation of the screened-out. That compromise may seem devilish, but I believe it is necessary and unavoidable.

I think we should remember here that it is within the scope of the CPA and within the power of its participant countries, including Vietnam, to lessen and eventually eliminate the risks of repatriation. Pushbacks every time out pose a fundamental threat to human life.

So as agonizing as it may be to secure, I think the United States needs to seek a consensus on the involuntary return of screened-out, preferably one that retains all the elements of its January proposal, including establishment of credible regionwide screening with proper appeals, counseling, and monitoring, although I believe some compromise is likely to be needed on the length of the moratorium.

Only with this consensus is there any real hope of halting pushbacks and the other dangerous forms of freelancing with the CPA that have preoccupied the region since last June.

But there are two other initiatives the United States should undertake and they have to do with resettlement and resources. We made a 3-year commitment to resettle about 18,500 long stayers in the region. Since then, we have approved 8,200 long stayers for admission, including 3,200 from Malaysia. Those are impressive numbers and we are encouraged by that.

But the problem is the resettlement pipeline is drying up. The Immigration and Naturalization Service has moved more rapidly than expected and with higher rejection rates than before through some of the so-called easier cases, and we are now confronting a substantial residential caseload of more difficult cases.

Unless something is done, U.S. refugee movement from Malaysia will halt at the end of March, at least through the end of the fiscal year. Boat arrivals, as has been pointed out many times here, are at their peak in April, May, and June. We feel it is imperative that meaningful levels of departure to the United States must be maintained.

There is an answer. An estimated 2,200 people in Sungei Besi Camp are members of a category group or are unaccompanied minors. The Morrison-Lautenberg legislation gives us a window this fiscal year to move as refugees former government and military officials, Catholics, Buddhist monks, ethnic Chinese, and

others. Unaccompanied minors are obviously a humanitarian priority.

We have 2,000 numbers still available in the Southeast Asia regional admissions ceiling for first asylum. We have made a commitment to resettle long stayers through the CPA. I think we should move as many as we can this fiscal year.

As to resources, it is no secret that the CPA will cost money to properly implement. Public information campaigns in Vietnam to discourage clandestine departures, promotion of voluntary repatriation, improvement of regional screening programs, implementation of new guidelines for unaccompanied minors, and reintegration aid to Vietnamese and Laotian attorneys, all of these cost money.

UNHCR last month issued an appeal for $109 million for the CPA in 1990. Of this, $39 million is for general programs and $70 million for special programs. The United States has pledged about $11 million so far, but has not yet committed funds from its emergency refugee and migration assistance fund. I believe we should do so now.

I would like to note here that the U.S. Committee for Refugees is one of the voices that has urged Congress to support a $50 million supplemental for refugee assistance in order to restore U.S. fiscal year 1990 contributions to UNHCR and other international organizations to fiscal year 1989 levels.

We hope the bulk of this money would go to refugees in Africa, but some should be available for general program commitments in Southeast Asia.

I think a $50 million assistance supplemental is necessary to enable the State Department to use ERMA funds strictly for urgent appeals and emergencies, not to bolster basic commitments to UNHCR and other organizations.

Last, if I may, I would like to go beyond the purview of the CPA and mention a number of very compelling refugee protection problems in Southeast Asia, particularly in Thailand. Piracy in the Gulf is spiraling. We have seen deaths and missing statistics now up in the 800's in 1989. These are far and above the numbers we saw in 1988–87. We would like to know why. We would like to know what the United States can do in terms of its contributions to address this kind of problem.

We have seen the forced relocation of 30,000 civilians under Khmer Rouge control in the last 18 months. We have seen continued processing lags in the humanitarian parole and immigrant visa program for Cambodians on the border. And we have seen a lack of sufficient water in site 2 since the beginning of the year. That is a camp that has 140,000 Cambodians in it. They are getting only half the water they need. Surely we can provide water to this longsuffering people.

PREPARED STATEMENT

And last, 15,000 Burmese refugees have crossed over into Thailand in the last several months, as if Thailand needed more refugees. These are Burmese students fleeing crackdown by the army on the prodemocracy movement. They are also Burmese minority

groups, the Karen and the Mon, who have suffered for many, many years under the whip of the Burmese Army.

We feel too that aid and asylum should be available there, that this is another area where a more vigorous response from the United States and the international community would be very, very helpful.

Thank you very much.

[The statement follows:]

STATEMENT OF COURT ROBINSON

Thank you, Mr. Chairman for the opportunity to present to this committee the views of the U.S. Committee for Refugees, a program of the American Council for Nationalities Service. The refugee protection problems in Southeast Asia are numerous and multifaceted, and the paths to their solution diverse and sometimes convoluted. In my testimony, I would like to focus on the following issues:

- Since May, Malaysian authorities have pushed back more than 4,000 Vietnamese boat people, at least six to their deaths. This action constitutes an abuse of the right to seek and enjoy asylum, as well as a violation of the "Comprehensive Plan of Action" (CPA) endorsed last June in Geneva, by Malaysia and many other countries. In order to halt this abuse, the United States must play a key role in achieving consensus among CPA participant countries on the repatriation of screened-out Vietnamese asylum seekers, while making new commitments of resettlement numbers and resources.

- Beyond the context of the CPA, there are several refugee protection crises that warrant a more vigorous U.S. and international response. They include the rising death toll of pirate attacks in the Gulf of Thailand, the forced relocation of thousands of civilians under Khmer Rouge control and other problems on the Thai-Cambodian border, and the lack of aid and asylum for Burmese refugees in Thailand.

Malaysian Pushbacks

Last summer in Geneva, more than 70 countries endorsed a "Comprehensive Plan of Action" (CPA) for Vietnamese asylum seekers, a plan designed to be implemented in whole cloth. Put simply, the CPA comprises a regional and international commitment to the following seven interlocking initiatives: discouragement, through humane measures, of clandestine departures from Vietnam; expansion of regular departure programs; temporary refuge for all asylum seekers; establishment of a consistent regionwide refugee screening process; resettlement of "longstayers" and newly determined refugees; repatriation, voluntary or otherwise acceptable under international practices, for persons determined not to be refugees; and maintenance of safe arrival and access to screening for all Laotian asylum seekers in Thailand.

The CPA has not been applied in whole but rather in patches. The very principle of asylum has taken on a capricious "Alice in Wonderland" quality: it means anything any country wants it to. Hong Kong wants it to mean immediate mandatory return for virtually all boat arrivals, and possibly interdictions as well. For Malaysia, it means pushbacks of more than 4,000 Vietnamese, resulting in at least six deaths and untold suffering. The

Philippines is publicly debating involuntary repatriation. Thailand has held to a shaky status quo, but sporadic pushbacks of Vietnamese and Laotians persist.

The CPA is at risk of unraveling, before it can even be tried on. I believe very strongly that it provides the best protection for asylum seekers that can be had right now in Southeast Asia. That may not be saying much, but the alternatives are all but unspeakable. Without the CPA, even the possibility of asylum for Vietnamese boat people will disappear, leaving in its place pushbacks, interdictions, deteriorating camp conditions, and bilateral, unmonitored repatriation arrangements.

At a CPA steering committee meeting this January, the United States proposed a one-year moratorium on involuntary return to Vietnam, conditional upon several points: that there be full funding of the UN High Commissioner for Refugees' (UNHCR) appeal for implementing all aspects of the CPA; that there be full support and priority for voluntary repatriation; that Vietnam substantially increase its capacity to receive voluntary returnees; that no mandatory return would take place "so long as there are a sufficient number of volunteers awaiting return"; and that proper screening and appeals, proper counseling, and proper monitoring of voluntary repatriation be in place before going forward with any mandatory returns.

The one-year proposal, unfortunately, was rejected by the other participants, and the United States, for its part, rejected any shorter intervals.

Malaysia has made it clear that the cost of ending pushbacks is full international consensus on repatriation of the screened-out. That we may find such a compromise devilish makes it no less necessary. The risks of returning people to Vietnam who are fairly designated as nonrefugees can be reduced. Pushbacks, every time out, pose a fundamental threat to life.

Since May, Malaysian authorities have forced more than 4,000 Vietnamese asylum seekers back out to sea. Some of the boats have been intercepted and turned back on the water; others are allowed to land and reprovision before being towed back. Many of those that reach Malaysia before being pushed back are detained for several days or several weeks in remote coastal areas, inaccessible to international aid groups.

The pushback figures document those who have arrived safely in Indonesia. There is no way of knowing how many boats never reached land again. Given the new rash of pirate violence in the southern Gulf of Thailand, and the inherent risks of ocean travel in small boats, it is hard to imagine that the death toll is not higher than six.

Given our government's understandable reluctance to compromise on involuntary repatriation, the question must be asked: did the United States do everything it could, short of compromise, to bring pushbacks in Malaysia to an end? The answer, in our judgement, is no, not everything. We do not question that the Administration is opposed to pushbacks. We acknowledge that the issue was raised repeatedly in private meetings with the Malaysian government. But we question the efficacy of a strategy that makes no public mention of the pushback problem until November 17 at a congressional hearing, when pushbacks began in May, and clear warnings were issued by senior Malaysian officials as early as last March. We believe the United States should have stood publicly with its colleagues at UNHCR in protesting the pushback incident in October that caused five people to die of dehydration, starvation, and exposure.

The Administration raised the issue privately again with Malaysia at the January steering committee meeting, but chose not to reference the problem explicitly in its opening statement. The public impression conveyed, however misleading, was that the United States was standing up to forced repatriation but sidestepping the issue of pushbacks.

There is no guarantee, of course, that public protest from the U.S. government would have effected a different outcome, but at the very least--as was the case with U.S. protests of Thai pushbacks in 1988--it might have clarified more quickly just how much was at stake, and perhaps forced a speedier resolution of the crisis.

But the issue here today is not what could or should have been done in the past, but what must be done now to end pushbacks.[1] For the last ten months, Malaysia has been engaged in a systematic, deliberate, and dangerous abuse of the right to seek and enjoy asylum. It is especially disheartening and disturbing to think that Malaysian coastal patrols were busy intercepting Vietnamese boats at the same time as the Malaysian foreign minister was

chairing the CPA meeting in Geneva and pledging temporary refuge for all asylum seekers.

There are three initiatives the United States needs to bring immediately into play in Malaysia: 1) consensus on repatriation of the screened-out; 2) new commitments to resettlement; and 3) new contribution of resources.

Consensus on Repatriation

As agonizing as it may be to secure, the United States must seek a new consensus on involuntary repatriation of the screened out, preferably one that maintains all of the elements of its January proposal, with some compromise likely to be needed on the length of the moratorium. Only with international consensus on this issue is there any real hope of halting pushbacks and all the other dangerous forms of freelancing with the CPA that have preoccupied the region since last June.

It may be argued that proposing a compromise on involuntary return is as unprincipled as compromising on pushbacks. I can only answer that it is within the scope of the CPA and within the power of its participant countries to lessen, and eventually to eliminate, the risks of repatriation. The same could never be said about pushbacks.

Any nonvoluntary return of the screened-out must be contingent, of course, on a fair and credible status determination and on Vietnamese guarantees of nonreprisal, verifiable through international monitoring. These conditions cannot be compromised, and they must be established during the moratorium. Without question, that will be a very large task. Fundamental flaws still exist in the Hong Kong screening program and must not be duplicated in the other screening programs that are starting up in the region. The role of the UNHCR and private aid groups in assisting and monitoring returnees will need to be invigorated.

But only with consensus on return of the screened-out, can work begin in earnest on promoting and expanding voluntary repatriation opportunities, enhancing the credibility and regionwide consistency of the screening program, and bolstering monitoring and reintegration efforts on behalf of returnees to Vietnam.

For those who feel that repatriation is unthinkable or at least unworkable, I would point to the modest but increasingly substantial successes

of the lowland Lao repatriation effort. In 1989, a total of 1,424 lowland Lao returned home under a program assisted and monitored by the UNHCR. This figure represents fully 10 percent of the Lao refugee camp population in Thailand. Of the total, about 200 were people rejected for refugee status by Thai immigration officials in a border screening program. Their return was not voluntary although it took place under UNHCR auspices. So far, no mistreatment of this group has been reported.

Repatriation of highland Lao groups, primarily Hmong and Mien, has been far more problematic. One positive note, however, is that the border screening program has been revamped in keeping with CPA guidelines and reportedly has become more accessible to highlanders, at least to those who are willing to enter Chiang Kham camp.

Commitments on Resettlement

Under the terms of the CPA, the United States agreed to resettle in the next three years 40 percent of the estimated 46,000 Vietnamese longstayers in Southeast Asian refugee camps. The U.S. government target is 18,500, of whom about half would be resettled in the first year. From July to January, the United States has approved 8,200 longstayers for refugee status, 3,245 of these coming from camps in Malaysia.

The problem is that the U.S. resettlement pipeline for Vietnamese is drying up. The Immigration and Naturalization Service (INS), whose job it is to adjudicate U.S. refugee admissions decisions, has moved more rapidly than was expected through the "easier" longstayer cases and is now confronting a substantial residual caseload of previously rejected or otherwise "difficult" cases.

In Malaysia, for example, about 7,300 longstayers remain in Sungei Besi camp. Of these, the United States is expected to process an additional 500 to 1,000 with refugee status in the next month, but, unless something is done, refugee movements from Malaysia to the United States will stop at the end of March. With seasonal boat arrivals traditionally at their peak in April, May, and June, it is imperative that our government find a way to maintain a meaningful level of departures in the next few months. The best way might be to grant refugee status to some of an estimated 2,200 people in Sungei Besi

previously rejected for U.S. admission who are members of a "category group" or unaccompanied minors.

When Congress passed the Foreign Operations Appropriations Bill, P.L. 101-167, last November, it included an amendment generally called Morrison/Lautenberg, which declares that for the remainder of FY 90, previously designated Indochinese "category groups" would establish a "well-founded fear of persecution" by asserting a "credible basis for concern" about the possibility of such persecution.

The category groups for Vietnam previously identified by the Attorney General in the "Worldwide Guidelines for Overseas Refugee Processing" issued by INS in August 1983 include former members of the South Vietnamese government and military, Catholics, Buddhist monks, former employees of U.S. or Western institutions or persons educated in the West, former reeducation camp prisoners, ethnic Chinese, Montagnards, Chams (ethnic Muslims), and accompanying members of households of any persons falling into these categories.

It is estimated that about 1,600 Vietnamese in Sungei Besi are members of a category group. Another 600 or so are unaccompanied minors who arrived before the cutoff date of March 1989 and hence, under the terms of the CPA, have been accorded UNHCR refugee status and assured of resettlement in another country.

In addition, about 900 residents of Sungei Besi who have been rejected for U.S. refugee admission have family links to the United States. INS has offered to admit this group with humanitarian parole status. We are not opposed to the judicious use of the parole option, so long as it can be carried out expeditiously. But humanitarian parole can be a time-consuming process, and the short-term imperative is to maintain migration to the United States.

Contribution of Resources

It is no secret that the CPA, properly implemented, will cost money. Along with basic care and maintenance costs for an unanticipated influx of Vietnamese asylum seekers (nearly 80,000 arrivals in 1989 alone), there are numerous special initiatives in need of extra resources: public information

campaigns to discourage clandestine departures, promotion of voluntary repatriation both inside Vietnam and in the asylum countries, improvement of regional screening programs through hiring of trained interpreters and UNHCR legal counselors, implementation of new CPA guidelines for unaccompanied minors, and reintegration aid to Vietnamese and Laotian returnees.

Last month, UNHCR issued a worldwide appeal seeking $109 million for the CPA in 1990. Of this appeal, $39 million is for UNHCR general programs and $70 million is for special programs. The United States has pledged about $11 million in response to the general program appeal but so far has not committed any funds to the special appeal. We need to do so now. A fair-share contribution to the special program appeal would be about $17.5 million, figuring that the United States traditionally has contributed about 25 percent of UNHCR funds. U.S. contributions to UNHCR special appeals generally have come from the State Department's Emergency Refugee and Migration Assistance (ERMA) fund, which currently holds $50 million.

Additional resources in Malaysia would enable UNHCR to hire additional interpreters, which would permit the expansion of the screening program. Vital casework with unaccompanied minors who arrived after the March 1989 cutoff date could begin, and efforts to promote voluntary repatriation finally could get underway.

I would like to note here that USCR has urged Congress to support a $50 million supplemental for refugee assistance, in order to restore U.S. FY 90 contributions to UNHCR and other international humanitarian organizations to FY 89 levels. While we hope the bulk of this money would go to refugees in Africa, some should be available for general program commitments in Southeast Asia. A $50 million refugee assistance supplemental, furthermore, would enable the State Department to use ERMA funds strictly for urgent appeals and emergencies.

But time is running critically short. If the United States is to play a role in reversing the tragic problem of pushbacks in Malaysia, and reaffirming fundamental commitments to first asylum, it must find a way first to reach consensus on repatriation of the screened-out, then to make tangible new commitments of resettlement numbers and resources.

Other Protection Crises

There are a number of refugee protection problems that do not fall under the aegis of the CPA, but which we feel are too compelling to omit from discussion. They are piracy in the Gulf of Thailand, forced relocation of thousands of civilians under Khmer Rouge control and other problems on the Thai-Cambodian border, and aid and asylum for Burmese refugees in Thailand.

Piracy

While the internationally supported anti-piracy program in Thailand and Malaysia has reason to feel proud of its accomplishments since 1982--attack rates have fallen substantially, and arrests and prosecution of perpetrators have increased--a deadly plague of violence sweeping the seas is making horrifying new headlines.

In 1989, 18 people have died and 734 are reported missing due to pirate attacks in the South China Sea, according to UNHCR statistics. These are nearly double the figures for 1988, which in turn, showed dramatic increases from 1987 statistics. More pirate attacks than ever before seem intent not just on robbery and mayhem, but on total annihilation. Anti-piracy experts suggest that with the growing sophistication of investigative techniques, coupled with higher rates of arrest and conviction, pirates try to be sure to leave no witnesses.

On January 15 and 16, the naked bodies of 11 Vietnamese women washed ashore in the coastal province of Nakhon Si Thammarat in southern Thailand, the apparent victims of a brutal pirate attack. Each of the dead women had a rope tied around her neck. It is suspected that the women had been tied together, pushed into the sea, then dragged behind the pirate boats until they drowned. A doctor's examination showed evidence that some had been raped.

It is extremely encouraging that the United States has just this week obligated about $200,000 to refund a crucial program that provides counseling to victims of rape, abduction, and torture. We feel that the spiralling violence warrants a closer look at the anti-piracy effort in Southeast Asia. We recommend that a multi-disciplinary study team be assembled as soon as possible, either through UNHCR auspices or the Office of the U.S. Coordinator for Refugee Affairs, to find out how resources might be best allocated to combat this new scourge.

Cambodian Border

In the last eighteen months, Khmer Rouge authorities have moved an estimated 30,000 people out of internationally supervised refugee camps inside Thailand and transferred them to military camps and satellite villages along the so-called "hidden border" and into newly seized territory in the Cambodian interior.

Most recently, in late January, Khmer Rouge guerrillas removed more than 4,000 Cambodian refugees from Borai camp and relocated them across the border to Cambodia, in order to thwart a UN effort to transfer this population to Site K, a camp farther inside Thailand with better international access. Relief officials have evidence that the Khmer Rouge used force to prevent people from boarding trucks for Site K.

In keeping with the spirit of the Australian proposal for peace in Cambodia--a neutral UN trusteeship would oversee the country while laying the groundwork for free elections--USCR has called for a strong, neutral presence in the Thai border camps. UNHCR has been tasked with coordinating, on both sides of the border, a voluntary repatriation program for 300,000 Cambodian refugees and displaced persons in Thailand whenever that becomes possible.

In the meantime, the watchword is protection. It is unfortunate that, prior to a political settlement in Cambodia, a UNHCR presence is unlikely to be enhanced, indeed enforced, by a contingent of UN peacekeeping troops along the border. Unless the Thai military shows it is willing to protect noncombatants from incidents like Borai, and to date it has not, there seems little hope of preventing the Khmer Rouge, and to a lesser degree the two noncommunist resistance groups also, from doing much as they please with their camp populations.

Since 1985, one very limited escape route from the perilous life of the border camps has been the Humanitarian Parole/Immigrant Visa (HP/IV) Program for Border Cambodians. In five years, only about 1,400 people have entered the United States through this program, largely without federal assistance and in some cases without permanent status.

The major problem has been a mercurial response from the Thai government on the question of access to the border population for interviews. For long spells throughout the program, most recently from January to September 1989,

Thai officials have sat on U.S. requests to interview family members and other potential beneficiaries of immigrant visas or parole. In November, consular and INS officers began interviewing a backlog of about 750 cases, and this month were given permission to process another 500.

On the U.S. side of the program, long delays throughout the application process, cumbersome paperwork, overly restrictive interpretations of humanitarian criteria, and often murky information and instructions have discouraged larger numbers of Cambodians from an effort to use the HP/IV track for migration. Given the desperate predicament and lack of alternatives for border Cambodians, it is sad that the United States has not invested more in outreach to the Cambodian-American community to expand the scope of such a worthwhile initiative.

Finally, since the beginning of the year, Site 2 camp--the largest on the Thai-Cambodian border, housing more than 140,000 people--has been on half-rations of water. The reasons are multiple: the reservoirs themselves, transportation, and distribution within the camps. But the simple fact is that 100 trucks of water are needed every day to meet minimal World Health Organization standards for a population this size. With the hottest season of the year coming on, camp residents are getting about half that. Some officials fear that riots could break out when the scarce supply is distributed.

Additional resources for the UN Border Relief Operation could help resolve these obstacles. Are we now to deny even water to this long-suffering people.

Burmese Refugees

In the last two months, Burmese army attacks have forced pro-democracy student groups to flee their camps along the Thai-Burmese border and seek sanctuary in Thailand. Camps at Ye Kyaw, Wang Ka, Thay Baw Bo, Three Pagodas Pass, and Mae Taung have fallen, and an unknown number of students have died or been captured. Four were reported captured and beheaded after the attack on Thay Baw Bo. Another hundred reportedly were trapped between Burmese army positions near Three Pagodas Pass three weeks ago.

More than 2,000 students have fled into Thailand, some to border towns, most to Bangkok, where they are living without legal status and precious little international assistance. UNHCR has assisted between 100 and 300

students with documentation, small cash grants, and referral to a network of humanitarian aid groups in the city.

A U.S. contribution of $250,000, appropriated in November, is only now being disbursed, but logistical and political problems are formidable. Thai authorities have allowed about 200 students from Thay Baw Bo to stay at a plot of land near Walay and allowed relief groups to provide some assistance. Other evacuation facilities are desperately needed farther north in Mae Hong Son, and to the south near Three Pagodas Pass and Kanchanburi.

In addition to needs for basic humanitarian aid--food, clothing, shelter, and medicine--students in Thailand also face a lack of protection and asylum. The Thai government considers this group to be illegal immigrants, subject to arrest and deportation. Cross-border repatriations have occurred regularly since September 1988, when thousands of students began to arrive on the border and in Thailand, fleeing a brutal crackdown by the Burmese army on pro-democracy demonstrators.

The United States has offered humanitarian parole to four Burmese, and is considering refugee status for another six people. While resettlement is not the primary need of Burmese refugees in Thailand, we feel the United States must do more to demonstrate its commitment to this group. The more critical need is to persuade Thailand to offer some form of temporary asylum to Burmese who so clearly are fleeing persecution and substantial human rights abuses.

The recent Burmese army offensive also has sent another 15,000 ethnic minority civilians into Thailand. An estimated 10,000 Mon crossed the border in January, and about 5,000 Karen civilians have crossed into Tak province, joining a population of 20,000 Karen refugees who have been living in Thailand since 1986. The United States, Thailand, and the international community should ensure that adequate aid and protection is provided to the minority groups as well.

VOLUNTEER WORK

Senator HATFIELD. You all have provided very excellent testimony. I appreciate it very much.

I cannot emphasize too strongly my view that without your organizations and many other volunteer groups, the problems we face today would increase hundredfold at least, and I do not think a lot of people in this country appreciate fully the hands and feet that you are to the reception, to the provisions for the screening, the

hours upon hours, the hundreds of thousands of hours of volunteer work that you contribute to the program.

I sensed it again in my visits to these camps. We are very grateful for your very positive participation.

I would like to ask you, if you were to give our Government three recommendations, what steps would you recommend to make it fulfil its goals?

Dr. KHOA. Mr. Chairman, as I mentioned in my testimony, just three questions that I think should refer to my three major concerns. The No. 1 is the first asylum, which is now endangered by the Malaysian pushoffs. And No. 2 is the screening procedures, the screening procedures particularly in Hong Kong, which is obviously full of flaws. And No. 3 is the repatriation of refugees.

So with your first concern, I would like to recommend that the international community put pressure on Malaysia to stop pushoffs and to continue to provide asylum, to abide by the CPA, because that is a violation of the CPA.

Senator HATFIELD. You target Malaysia.

Dr. KHOA. Yes; I target Malaysia.

And the second recommendation, with regard to the screening procedures, is that there should be a fair system. We have made recommendations in our paper, so I think you can look at that. They should be revised. The system should be improved so that they should be fair and provide the refugees with opportunities to present a basis.

Senator HATFIELD. We do not have to wait for the courts to act.

Dr. KHOA. We do not have to wait, yes. That is why we need to work with the British and Hong Kong and get them to agree to change the system.

We are not opposed to screening, but it should be fair.

And No. 3 is the repatriation, as I mentioned. This is a very important and key solution at this point, but voluntary only.

Senator HATFIELD. Predicated on those situations being in place——

Dr. KHOA. That is right, and the involvement of the NGO's and the overseas Vietnamese.

Senator HATFIELD. Would you like to add?

Ms. HALE. I would echo Mr. Khoa's concerns. However, I feel that, on the question of pushoffs from Malaysia, that if the United States has something that it can do to stop that, it ought to do it very quickly.

As Mr. Robinson mentioned, we have already lost seven lives and we do not know how many more. In addition, there have been reports that Thailand has pushed off at least one boat. There may be many others. Wholesale pushoffs is something that I do not want to see in the region, and if there is something that we can do to stop that, be it President to Prime Minister, then let us do it.

The alternative if that is not forthcoming may be this idea of reaching some kind of consensus on mandatory repatriation. However, that should be conditioned on full-bore progress on the other parts of the CPA.

Senator HATFIELD. And I am sure you cringe, like I cringe, when you even spoke those words of "forced repatriation."

Ms. HALE. Yes; I do, yes.

Senator HATFIELD. Because it seems like a hook that they can hang something onto to stop them, to keep them doing the things that we are trying to get them to stop. But whether it is realistic or not, I would rather not entertain that possibility.

Mr. ROBINSON. I would reiterate the proposal, at the risk of sounding cute on it, the three R's: repatriation, resettlement, and resources. I think these are three areas where the United States can show some leadership.

Obviously, consensus on the return of the screened-out is the fundamental issue we have to confront and, as I said, I think we should maintain as many aspects of the proposal that the United States made in Geneva in January, with the possible exception of the length of time available for the moratorium.

Obviously, conditions have to be safe, through credible screening and through verifiable guarantees of nonreprisal.

Second, resettlement. It has long been the best source of leverage for the United States. It is a diminishing tool, that is losing, I think, the impact it once had, the leverage it once had. Nevertheless, we committed to take long stayers. We should take them.

I think we should not quibble about who is a refugee and who is not. All of the long stayers, I should point out, have refugee status under the U.N. High Commissioner for Refugees. I think we are spending too long, too much time, too many resources, deciding who is a refugee and who is not.

Let us take the 9,000 this year, get them out of there, take the people that we can as quickly as we can, particularly in Malaysia, and in the rest of the region. The sailing season sets on. We cannot be sitting back and looking as though we are second guessing ourselves and deciding, well, maybe humanitarian parole and maybe some other option of immigrant visa and the rest.

Unaccompanied minors, category groups, as many people as we can that have refugee status and deserve it should come out quickly.

And last, money. I do not think ERMA is sufficient to spend on the CPA and the many other emergencies we see around the world—the growing famine in the Sudan, the movement of tens of thousands of Liberian refugees. That money is needed everywhere in the world.

I think that is insufficient to meet the needs of the CPA in and of itself. We need a $50 million supplemental for refugee assistance and I hope that you can help us in getting that.

Senator HATFIELD. Do you have doubt?

Mr. ROBINSON. I have lots of doubt. I know there is a lot of strong commitment in the Senate and in the House on this issue.

Senator HATFIELD. When you say "you," I am taking that as personal pronoun.

Mr. ROBINSON. Do I have——

Senator HATFIELD. Any doubt that I will be helpful.

Mr. ROBINSON. I have no doubt, no, sir. [Laughter.]

Senator HATFIELD. You bring up a very important point, Mr. Robinson. But I have to tell you that, as we entertain possibilities of forced repatriation because of the real world out there, we have to face the real, real world of the U.S. Congress, where there is a

distinction between economic refugee and political refugee, because if we do not, our case is badly weakened.

I understand what you are saying, but I nevertheless have to face of those who say America could be a magnet for economic refugees from every other part of the world that has a lesser standard of living and we cannot take in everyone who is seeking economic enhancement. So we have to keep the focus on the political aspects—life being endangered and rights being abused, et cetera, et cetera.

I am not arguing the point with you, but am merely saying that we have to keep the focus pretty strictly on the political aspect of refugees, both by the rules and regulations, by the policies, by the programs, and just by the politics in this country.

That is not just the Congress. The Congress is reflecting attitudes of the people.

I am deeply concerned about our commitments to the HHS and money that we appropriate to help the States help the refugees adapt, find their life in a new land. And I am just as concerned about the refugees, as I am sure you are, who are emigrating out as to those who are emigrating in, and making sure that they have the opportunities of mainstream American life.

I need not tell you that when economic conditions worsen, there is a great competition for jobs, and that we have never had support from certain very influential elements in this country for any refugees coming in and threatening to take jobs away from natural-born Americans.

There is a lot of chauvinism out there, and those environments have to be constantly nurtured and tended as we try to make a home, a real home, for refugees who come here.

We are all caught in the dilemma of looking at it as a humanitarian issue, and yet having to deal with the real world, whether over there or here.

I would like to go back a moment to the root causes. Mr. Khoa, what are your thoughts about how we address the root causes as a government, our politics, our policies, diplomacy? What would you recommend?

Dr. KHOA. I am not quite sure if I represent my whole community on this——

Senator HATFIELD. You are really an Americanized person, are you not? No American can represent very many other people.

Dr. KHOA. But very honestly and frankly, I think that it is time for the West to address the root causes by dealing directly with Vietnam. I talk in terms of not just economic or trade or lifting the embargo—that may be possibly part of the solution—but to create the climate whereby the political and social conditions will be changed within Vietnam.

But if we do not talk to them, then we cannot change anything. So I think that we should start the process with something, and I believe that this should be a give and take process. This is not one-way only.

But I think Vietnam is desperate and they are looking for help and we should take advantage of the situation and encourage that process.

By the way, I would like to share with you some of my feelings regarding my serious concern over the next couple of months, in which I foresee that the flow of refugees might be increasing drastically, because we remember that we have in the background 200,000 soldiers from Cambodia who have no jobs now and the Vietnamese Government has no way to feed them.

And also the 200,000 or so from Eastern European countries, and they are coming home. In the past, the Vietnamese authorities relied on some income from those people. Now they have lost that income and then they are getting them back, and that is a big problem.

How they will go, how they will resolve it, I am afraid that they are sending them to Hong Kong to create another crisis. So we have to foresee that event from happening.

Ms. HALE. If I may on another point, part of the need for action would include a public information campaign so that those people who are returning from Cambodia or returning from Eastern Europe know what they face, know what the odds are in terms of resettlement, what they need to establish to prove that they are refugees, what the conditions in the camps are like, so that you do not have people coming out by boat exacerbating the situation, but also suffering individually and unnecessarily.

So as one of your one, two, threes, I would heartily support leadership on the part of the United States to get a program like that going. There is a program sponsored by the UNHCR, one person operating out of Bangkok working with the Vietnamese Government. It is a start, a good start, but there has got to be more.

It is a big country. There are a lot of people, and people are woefully ignorant of the situation outside.

Mr. ROBINSON. I would just add, we have opened some very important doors with Vietnam in terms of the conversation on orderly departure, and I use that term in its broader sense, not the orderly departure program per se, but the growing opportunity that people have to leave legally and increasingly under what we call normal emigration circumstances.

That is heartening. Some may find it grotesque, but I think that there is an opportunity for a new dialog with Vietnam on the issue of repatriation. It is a fundamental right of citizens to return to their country of origin and where it has been determined they are not fleeing persecution.

I think there is an opportunity, indeed the obligation of the United States, to support a movement of people home and to use that opportunity to talk with Vietnam on new subjects that we have not discussed with them in the past.

I support Congressman Atkins' views that it is time for a dialog on normalization at very high levels. I think we have to realize that they are working with us on Cambodia in ways that we have not publicly been willing to acknowledge as yet. There is movement on the POW-MIA issue.

The refugee issue has preoccupied us in many ways. I think we can use that now as an opportunity to have conversations with the Vietnamese that we have not so far undertaken, and I think it is time to do so, high time.

Senator HATFIELD. Any other comments that you wish to add?

Dr. KHOA. Just one final. I mentioned earlier about the UNHCR and cooperation with the Vietnamese-American community. I am glad to talk to you about that after many meetings with representatives of the UNHCR in Geneva and here. The UNHCR recognized that they alone cannot implement effectively the CPA and they need cooperation. And they also recognize that they need cooperation from the NGO community and also with the Vietnamese-American community.

So we worked together and formulated a kind of triangle, a tripartite formula, and we would like to see the governments, and especially Britain, support that formula so that the CPA can be implemented successfully, especially the voluntary repatriation program.

Senator HATFIELD. I am grateful that you have kept the global perspective here on the problem, because we have to address it globally.

I have a particular interest in Southeast Asia, where I have my own background and experience. I have a deep concern about what is happening in Africa and the Middle East, Eastern Europe, Soviet Jews, and others who represent part of this worldwide refugee problem.

As Senator Kasten said a while ago, we cannot play one refugee group against another in shifting funds back and forth to respond to the biggest pressure points. We have to keep that global perspective and, hopefully with changing global politics, we can see that reflected in a lessening number of refugees in those areas where there is liberalization occurring and encourage other areas as well.

I think if the so-called big powers do not move together on this, then obviously the task will be made more difficult. I wish we could mobilize resources for these human needs as we so readily have been able to mobilize resources to infect the third world with the same cancer of arms desire that we have had for far too long.

We gave $9.5 billion last year in arms to the third world, to areas of the world that do not even have a subsistence agriculture base to feed their own people. Pakistan, moving into a second generation of nuclear weapons. Unbelievable, the kind of waste this represents.

And yet when it comes to finding a few more dollars for refugees or a few more dollars for Food for Peace, we are always facing the problem of deficit restrictions or deficit deficiencies. But you never hear that, around here at least, when it comes to escalating some arms provisions to countries that cannot even buy them. We give them to them.

I hope that there is a change or a new attitude, because I hear more from people about a peace dividend than you hear around here. I think the people are ahead of the politicians frequently, as Mr. Eisenhower once observed, and I think this is one of those areas.

When you present to the American public a human need there is a basic primitive response. I have no fear of raising spending levels for these programs, because I think that really is where the American people are, provided they see some diminution of the spending programs that are only geared to increase the capacity to destroy life, offsetting one against the other.

I again want to thank you for who you represent and the fact that this is to me a manifestation of the real heart of America, Americans' priorities, people's priorities.

Anyone else in the room wish to be heard or make a comment? This is an open session. I can hear from anybody.

[No response.]

SUBCOMMITTEE RECESS

Senator HATFIELD. If not, we will stand in recess subject to the call of the Chair.

[Whereupon, at 12:08 p.m., Thursday, March 1, the subcommittee was recessed, to reconvene at 11:30 a.m., Thursday, March 22.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

THURSDAY, MARCH 22, 1990

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 11:50 a.m. in room SD-106, Dirksen Senate Office Building, Hon. Patrick Leahy (chairman) presiding.

Present: Senators Leahy, Kasten, Lautenberg, and D'Amato.

DEPARTMENT OF THE TREASURY

SECRETARY OF THE TREASURY

STATEMENT OF HON. NICHOLAS F. BRADY, SECRETARY OF THE TREASURY

ACCOMPANIED BY CHARLES DALLARA, ASSISTANT SECRETARY, INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY

OPENING REMARKS OF SENATOR LEAHY

Senator LEAHY. I would like to put my statement in the record, and I also will state my abject apologies to Secretary Brady, who is not only a superb Secretary of the Treasury but a good personal friend and former colleague. I hate to be late.

I also apologize to Bob Kasten and to Frank Lautenberg, two more colleagues and friends.

I was delayed at a ceremony with the President. He decided to have an impromptu press conference, and unfortunately, I was sort of caught. The only way to walk out would have been to walk out right in front of him, and I did not want anybody to read something inappropriate into that, especially since he was talking about my position on Panama and Nicaragua.

[The statement follows:]

STATEMENT OF CHAIRMAN LEAHY

Mr. Secretary, we are glad to have you here, I think we all know what the big issues are we need to talk about—the debt crisis. The last I heard we were at $1.3 trillion and climbing. This has become an unshakable millstone around the necks of countries that are losing hope of ever breaking free of it. Some of them are paying one-half their export earnings just to pay debt service—not paying back the debt itself—just to service the debt.

Your debt agreement with Mexico has stirred up a lot of debate. Some say it is an important first step toward getting these countries back on the road to recovery.

But others argue that while it has raised a lot of expectations, Mexico's debt will actually hardly change.

I was very pleased to learn about the debt reduction plan for Venezuela, and I understand you are close to agreements with Costa Rica and the Philippines. I will have some questions about those, particularly the Philippines which I understand will only result in a net debt reduction of 10 percent.

I am sure it is too early to tell whether 2 or 3 years from now these countries will be back asking to reschedule their debts, but I want to hear your best guess of what we can expect over the long term from the Brady plan.

The new European Bank, I know my friend Senator Kasten has some very serious misgivings about this bank and I have some of my own. Democrats have been attacked recently for suggesting we should help the Soviets restructure their economy. Is that not what our money would be used for by this bank? Are we walking into a trap if we support this? I would like some assurances on that.

Frankly, I do not see that we have a lot of choice but to join the European Bank. It is going to happen whether we join or not and we need to be in on it if we are going to influence how things go over there. We have to get the best deal we can. But you should know there are going to be big problems up here on the Soviet issue. I want to know what your bottom line is on that.

The MDB's record on the environment, I cannot emphasize strongly enough how concerned I am about this. I think it goes to the root of the problem. Look at the economies of Brazil and Argentina and these other countries where the MDB's poured in money. They are a disaster. And what happened with those big projects? Whole native communities uprooted. Huge areas of tropical forests destroyed.

I recognize that there has been progress. But I think the World Bank still gets below a passing grade on the environment. The stakes are too high to be wasting time. The same is true of what it is doing to control population growth—one of the biggest problems the developing countries face. Rhetoric is worthless to those countries. We need a major shift in what these banks are doing with our money.

The callable capital issue—I supported you on this last year and I am still with you, but I am not going to be for long if issues like the environment are not given the highest priority.

The arrearages—I agree they represent commitments we should keep. I just do not know where we are going to get the money.

I have a lot of questions so I will stop here and give Senator Kasten a chance to make an opening statement.

OPENING STATEMENT OF SENATOR ROBERT KASTEN

Senator LEAHY. I think, Bob, maybe you wrote the President's lines for him. Do you have an opening statement?

Senator KASTEN. Mr. Chairman, I do have an opening statement, but first of all I want to welcome Secretary Brady.

Emerging democracies all over the world are looking to the United States for inspirational, moral, and financial support. And we are finding that democracy can be expensive. That is why it is important to make sure our resources are directed to development programs that will build self-sufficient market economies.

The proposed Eastern European Development Bank, spearheaded by the French Government, raises a lot of very troubling questions about whether our dollars will be wisely and effectively spent.

Secretary Brady, I would first like to compliment you for voicing some of the same concerns that many of us have had about possible U.S. participation in this new, multilateral lending institution.

Many in Congress are simply unaware of the serious ramifications of this proposal. The negotiations over the proposed charter have moved very quickly. The French plan to wrap up a preliminary agreement by mid-April.

As I outlined in a floor statement on March 7, this new multilateral lending institution raises many serious questions that must be answered.

First of all, under the proposed charter the Soviets would contribute to the Bank's capital and borrow from the Bank. As I understand it, the United States and Japan initially rejected the idea of Soviet borrowing. Then in the face of Western European pressure, the administration backed off, but is now trying only to limit the Soviet's right to borrow, asking that it not exceed their 6-percent contribution to the Bank's capital stock, and limit as well the amount of time that the Soviets would be allowed to borrow.

I do not think that that is enough, and I think a number of my colleagues are also concerned about it. I believe that the United States should boycott the Eastern European Bank altogether if the bank's charter allows any Soviet borrowing.

I do not think that we, the United States and our European allies, should put the Soviets in a position to influence the Bank's policy. And more importantly, I do not think we should use Western funds to subsidize a failed Communist economic system. Let the Soviets pay for perestroika themselves by reducing the Soviet military budget, which is now running between 15 and 20 percent of their GNP.

Another source of concern I have about this Bank is that it will be dominated by European policymakers who are indifferent, if not hostile, to growth economics, the kind of economics that has made our country a success. Incredibly, some of these policymakers are still debating whether Eastern Europe should reject socialism or reform it along the lines of the Swedish economic model.

With the possible exception of West Germany, the track record of Western Europe's high-tax, welfare state model in promoting economic growth, job opportunities and rising living standards is clearly inferior to the low-tax, free-market economies in the United States, Japan, and Pacific Rim countries.

Many Western European policymakers still believe that socialism can be reformed, that market incentives can work in a socialist welfare state and that government action raises living standards. I am concerned that this is the kind of mind set that will shape the policies of this Eastern European Development Bank.

If the Western Europeans balk at our demands on issues of Soviet borrowing and market-orienting lending policies, then, as you suggested last week, we should provide our own leadership by creating a special facility under the auspices of the World Bank.

Later today, I will be joined by the Republican leader, Senator Bob Dole, and other legislators to introduce legislation which would establish a special facility of the World Bank to provide loans, economic guidance and technical assistance to Eastern Europe. Our legislation, entitled the Eastern European Economic Recovery Act of 1990, is designed to ensure the smooth transition from socialist to market-oriented economies.

The majority of the financial aid would therefore go to private sector activities, projects and organizations. Public sector loans should be used primarily to cover the transition costs from socialism to a free-market economy.

No loans would go to the Soviets.

This proposal would sunset the facility after 5 years. I think this is important because it sends a message to the Eastern Europeans

that their economic well-being will depend on market-oriented reforms, not on an endlessly flowing fountain of foreign aid.

I believe that the Kasten-Dole bill is an effective and responsible strategy to promote economic freedom, growth and opportunity in Eastern Europe.

Mr. Secretary, I look forward to your testimony, and when there is opportunity, to your responses to some of the questions that I have with regard to this new plan for Eastern Europe.

Mr. Chairman, thank you.

Senator LEAHY. Thank you. Senator Lautenberg?

OPENING REMARKS OF SENATOR FRANK LAUTENBERG

Senator LAUTENBERG. Mr. Chairman, I will be brief. I too want to welcome the Secretary. Notwithstanding the fact that he is from New Jersey, he is someone who has extensive business experience and understands what makes things move, and I have great respect for Nick Brady, our Secretary, and I wanted to welcome him here.

But I am forced to respond just briefly to our distinguished colleague and ranking member from Wisconsin. Because if we are going to have the debate about policy here and how we deal with the Soviet Union and the Eastern European countries, Bob, I think that before we start talking about bailing out the failed Communist system, I think we ought to consider what our opportunities are ahead and not still be looking for a punitive response to unusual opportunity.

It seems to me to be quite contradictory when we are willing to bail out the Communist management of the savings and loan industry at the kind of numbers that we have without being able to take a look at an unusual opportunity to have democracy succeed.

With President Gorbachev hanging by a thread, I think it would do our country and the free world a lot more good if we could in some way encourage this boldness, this courage that his leadership has produced. They admit that they have a failed system. They are there on their hands and knees begging us to help them through the morass. And I think it is an unusual opportunity. And I have to give President Bush credit for seizing some of the opportunity. I do not think, obviously, that he has been bold enough, and I have said that. But at the same time, I have got to give credit to the administration for recognizing an opportunity and wanting to do something to be of help.

I hope, Mr. Secretary, that because there was essentially no response, that you do not assume that there is only view on this issue. I am sure you do not.

Thank you, Mr. Chairman.

Senator LEAHY. I would note that Senator Kasten has stated very serious misgivings about the EBRD and he has been very clear. He has stated what is a concern of many; and he has been very open and right up front on this as he always is.

I would only note, Mr. Secretary, that some members of my own party have been attacked recently for suggesting that we should help the Soviets restructure their economy, and I would hope in your testimony you may let us know about this new European Bank. If we support the administration on this, are we going to be

attacked? In other words, if we support you on this, will we end up doing the same thing this week on behalf of the administration that the administration was attacking us for suggesting last week?

We do not want to be Fitzwatered/Atwatered if we support you on what may well be a good idea. I am not suggesting it is not a good idea by any means. And so we would hope that maybe when Democrats suggested this, the criticism was simply an aberration and will be forgotten now that the Republican administration recommends supporting the European Bank.

I should also note that accompanying Secretary Brady is the Assistant Secretary of International Affairs, Charles Dallara.

Secretary Dallara, we are very happy to have you here, too.

Please, Mr. Secretary, go ahead.

OPENING STATEMENT OF SECRETARY BRADY

Secretary BRADY. Thank you, Mr. Chairman. I am suffering from somewhat of the same disease you are. I have to be back from where you just came from. So, I would like to dispense with my even foreshortened oral testimony and just read one section out of it on the debt strategy, which will take me about 2 or 3 minutes. Then, I would be glad to reply to Senator Kasten or to proceed in any way you might suggest.

I would, however, first like to say something about the debt strategy because it is so important to your deliberations. The international financial institutions clearly serve the broad range of U.S. interests, but I want to focus particular attention on the contribution these institutions have made through their support of the debt strategy. A year ago, I testified before this committee on the outlines of a new approach to developing countries' debt problems. As I was a year ago, I am confident that our new approach provides a solid basis for progress in addressing these problems. This year, however, I can cite evidence to confirm that this strategy is producing results through reduced commercial debt burdens and economic reform. Let me say how this might improve the prospects of a lot of developing countries. It will improve their investment climates, bringing capital home, and boosting foreign investment. It will revive economic growth, and it will build their potential as active participants in the vibrant world economy.

Mexico, for example, is experiencing real benefits from the agreement it signed with commercial banks on February 4. That country's interest payments to commercial banks will be reduced by one-third, or $1.5 billion per year; $42 billion of debt payments will be forever removed from the shoulders of the Mexican people. Domestic interest rates have fallen significantly resulting in savings equivalent to 4 percent to 5 percent of GDP. Net private capital inflows of $3 billion in 1989 indicate that flight capital is returning home and investor interest is reviving. Ninety-nine percent of the 450 banks with exposure in Mexico chose to participate in this program leaving no free riders to detract from the package. As a result, Mexico is on the move again and has high expectations about its economic future.

The agreement between the Philippines and its commercial banks places greater emphasis on new money and direct cash buy-

backs. Benefits in that country include: annual interest savings of $120 million, or 20 percent of the scheduled payments; satisfaction of projected financing needs for 1989-90, while achieving net reduction of 10 percent.

Implementation of Costa Rica's commercial bank agreement is also expected to produce benefits. Costa Rica's stock of debt will be reduced by about 60 percent, and annual interest rates will be reduced by 60 percent for 20 years to 25 years. Such measures will leave Costa Rica with a debt service burden which reflects more realistically its ability to pay.

Although these three agreements have received the most attention over the last year, debt reduction agreements can be pursued by any country with medium-term commercial bank debt and a strong commitment to economic reform. For example, Chile has made use of the new debt strategy through a limited direct buyback, marking the latest stage in an ongoing debt reduction program, which since 1985 has enabled Chile to retire $7.8 billion in debt. Other countries are moving to seek similar agreements with their commercial creditors.

Finally, earlier this week, Venezuela and its creditor banks announced an agreement in principle on a comprehensive financing package which includes both significant new money features as well as several debt and debt-service reduction options. During the past year, Venezuela implemented the most comprehensive economic adjustment program in its history. The bank package provides financial support for this adjustment effort. Elements of the new agreement include a cash buyback, principle reduction bonds and interest reduction bonds, temporary interest reduction, and new money during the period 1990-92.

It is too early, as this was just signed a few days ago, to assess the specific benefits of the financing package to Venezuela, because we cannot estimate with certainty the likely bank response to the available options. I would note, however, that this package contains the broadest range of options yet offered under the debt strategy, and we are confident that it will provide substantial benefits to Venezuela.

Morocco is also discussing a package. Other potential future candidates with whom we have been talking on an ongoing basis and for whom we have hopes are Bolivia, Nigeria, Ecuador, Uruguay and, following a leadership transition which I am sure you have all read about this week, Brazil.

Continuing our efforts to promote economic reform and sustain growth depends fundamentally on the international financial institutions. In addition to continuing their project and policy-based lending over the last year, the IMF and World Bank have begun to provide special financial support to make commercial bank debt and debt service possible. In short, the agreements negotiated between debtor countries and their commercial banks could not have taken place without the IMF and the World Bank. As advisors and catalysts, these institutions are a fundamental tool for bringing about serious economic reforms and significant reductions in commercial bank burdens.

I would like, Mr. Chairman, with your concurrence, to incorporate the rest of my testimony into this hearing by submitting it in written form to your committee.

I would like to emphasize that if the Venezuelan announcement this week turns into a signed agreement, as it has in Costa Rica and Mexico, that we will then have addressed 44 percent of all of the commercial bank debt outstanding; 44 percent of the debt will have been reduced in one way or another. In addition, of course, you have Brazil, which we are very hopeful for, which would be another 26 percent. If we could get that accomplished this year or shortly thereafter, we will have taken care of 75 percent of the commercial bank debt outstanding. So to me, that is progress if not a partial solution.

PREPARED STATEMENT

I would be glad to proceed in any way you wish, either by replying to yourself or to Mr. Kasten—on his discussion of the European Bank.

[The statement follows:]

STATEMENT OF HON. NICHOLAS F. BRADY

It is a pleasure to meet with you today to discuss the Administration's fiscal year 1991 budget proposals for the Multilateral Development Banks (MDBs) and the International Monetary Fund's Enhanced Structural Adjustment Facility (ESAF), and to review progress in implementing the strengthened debt strategy.

Since my appearance before you last year the world has been transformed. Eastern Europe has undergone changes far beyond what could realistically be expected in so short a timespan. Closer to home, countries in South and Central America have embraced democracy and better economic policies. These events amply demonstrate the soundness of the principles the United States has long advocated: pluralistic, democratic political processes, and a general reliance on the market to allocate resources. But these events -- which certainly mark a "sea change" in global affairs -- do not occasion self congratulation so much as a call for deep reflection as to how to proceed from here.

The changes towards democracy mean that promoting U.S. national interests will rely more on promoting sound economic policies than upon military strength. Hence, it is essential that the United States maintain an active leadership role in institutions such as the MDBs, which will have a prominent role in Eastern Europe and Central America.

I know, Mr. Chairman, that you realize fully the United States' long-term self-interest in nurturing these institutions. I want to acknowledge and thank you and members of your Committee for the support you have demonstrated for these institutions. I very much appreciate it. Successful U.S. leadership in these institutions depends on firm backing by the Congress for our international commitments -- commitments made on the basis of extensive Congressional consultation.

For FY 1991, the Administration is requesting $1,736.3 million in budget authority and $6,879.7 million under program limitations for the MDBs. Of this $1,736.3 million, $268.2 million stems from shortfalls from previous requests, and $1,468.1 million is to honor previously agreed payment schedules. It is worth emphasizing that this request -- which seeks funding for on-going programs, a new replenishment of resources for the International Development Association (IDA), and all U.S. MDB funding shortfalls -- has the full backing and support of the President.

For FY 1991 we are also seeking $10.6 million to complete the U.S. contribution to the IMF's Enhanced Structural Adjustment Facility. The specific requests for each MDB "window" and the ESAF are presented in the annex at the end of my testimony.

Mr. Chairman, the United States should make these payments in full, including all arrears -- this year. The MDBs are now lending funds at the rate of about $30 billion annually. U.S. financial support has averaged about $1.4 billion in recent years. That means U.S. dollars are multiplied over 21

times through the intermediation of private capital markets, retained earnings, repayments on earlier loans, and the contributions of other donors. However, U.S. financial support of the MDBs does more than leverage U.S. dollars to promote growth in developing countries and advance U.S. humanitarian concerns -- it leverages U.S. international leadership.

Our ability to exercise international leadership on such issues as the international debt problem and protection of the environment has been aided immensely by our standing in the international financial institutions. No doubt, our standing in these institutions is a function of the power of the ideas we put forward, as well as our financial support. But we should not delude ourselves: ideas and financial support must move in tandem to be effective.

Debt Strategy: A Progress Report

Our support for the international financial institutions serves a broad range of U.S. interests. By promoting sustainable growth in developing countries, these institutions help increase effective demand for U.S. exports and reduce the strains on the international financial system. Their programs also foster the development of democratic institutions and promote market-oriented reforms -- making a substantial contribution to democracy and an open world economy. We also rely on the MDBs to protect the delicate global environment that we all share, and to advance U.S. humanitarian interests.

These points make a clear case for our support for the international financial institutions. I want to focus particular attention, however, on the contribution these institutions make through their support of the debt strategy.

A year ago, I testified before this committee on the outlines of a new approach to developing countries' debt problems. This strengthened debt strategy is based on:

- reviving hope in debtor countries and reinvigorating their commitment to economic reform;

- inducing a reduction of commercial bank debt burdens of developing countries as a means of providing financial support for these reform efforts; and

- building confidence in debtor economies and thereby encouraging investment and flight capital repatriation.

To pursue these goals, the international financial community took measures to redirect IMF and World Bank resources to support debt and debt service reduction and to provide continued creditor government support through Paris Club reschedulings and ongoing export finance.

When I presented this framework to you last year, Mr. Chairman, we discussed the potential benefits from this strengthened debt strategy. As I was a year ago, I am confident that our new approach provides a solid basis for progress in addressing debt problems. This year, however, I can cite evidence to confirm that this strategy, through

reduced commercial debt burdens and economic reform, can help countries:

- improve their investment climates, bringing capital home and boosting foreign investment;
- revive economic growth; and
- build their potential as active participants in a vibrant world economy.

As you know, Mexico was the first to achieve an agreement with its banks. It is important to note that by the time the agreement was signed on February 4, 1990, 99 percent of the 450 banks with exposure in Mexico chose to participate through one of the three options -- leaving no "free riders" to detract from the package. Built on a strong record of macroeconomic and structural reforms, the agreement produces significant benefits for Mexico.

- Mexico's interest payments to commercial banks will be reduced by one third, or $1.5 billion per year.
- $42 billion of debt payments will be forever removed from the backs of the Mexican people.
- Domestic interest rates have fallen significantly, resulting in savings equivalent to 4-5 percent of GDP.
- Net private capital inflows of $3 billion in 1989 indicate that flight capital is returning home and investor interest is reviving.
- Current projections suggest that, provided reform efforts are sustained, Mexico will achieve growth of 5-6 percent by 1994 and will have reduced its debt service ratios by half.

In short, Mexico has revitalized its economy and looks forward to the future with optimism. In the context of ongoing economic reform efforts, we believe that the Mexican economy will live up to these new expectations.

The agreement between the Philippines and its commercial banks places greater emphasis on new money and direct cash buybacks. The Philippines will experience real benefits as a result, including:

- annual interest savings of $120 million, or 20 percent of scheduled payments on medium-term commercial bank debt; and
- satisfaction of projected financing needs for 1989-90 while achieving a net debt reduction of 10 percent.

Some observers have raised questions about whether this package really offers much in the way of benefits to the Philippines. In fact, it helps demonstrate the flexibility of the strengthened debt strategy and its potential to meet the needs of diverse countries. The Philippines' situation varies significantly from that of Mexico. Its financing needs are much higher relative to its commercial bank debt

stock; its commercial bank debt burden is not as heavy. A Mexico-style package would have covered only half of the Philippines' projected financing needs in 1990.

As a result of these circumstances, voluntary new money was featured more prominently in the agreement the Philippines reached with its commercial banks. Debt reduction was pursued through direct cash buybacks because they offer the most effective means of gaining support from banks prepared to exit the Philippines at a steep discount. The Philippines may eventually launch the second phase of efforts to reduce its debt burden, utilizing remaining official enhancements to secure additional debt and debt service reduction.

Costa Rica pursued yet a different course, agreeing in principle with its commercial banks in October 1989, on a combination of measures including a projected cash buyback at an 80 percent discount and specific measures to address a significant arrears problem. The benefits for Costa Rica are:

- Costa Rica's stock of debt will be reduced by about 60 percent; and
- annual interest rates will be reduced by 60 percent for 20-25 years.

The agreement, once implemented, will leave Costa Rica with a debt service burden which reflects more realistically its ability to pay.

Although these three agreements have received the most attention over the last year, it is important to recognize that this approach to reducing commercial debt burdens can be pursued by any country with medium-term commercial bank debt and a strong commitment to economic reform.

Chile is another country that has made use of the new debt strategy through a limited direct buyback. This step was the latest stage of an ongoing debt reduction program Chile has pursued since 1985 which -- through a combination of debt/equity swap and buyback techniques -- has enabled Chile to retire $7.8 billion in debt, more than half of its pre-1985 medium- and long-term commercial bank debt.

Most recently, two days ago the Government of Venezuela and its commercial bank creditors agreed in principle on a medium-term finance and debt reduction package. The agreement has established a framework that will provide new money for Venezuela as well as the potential for significant debt and debt-service reduction. The package provides several options for converting existing debt into new instruments, and a cash buyback instrument for existing debt.

Other countries are moving to seek similar arrangements with their commercial creditors. Morocco has been discussing a package with its commercial banks. As they adopt strong reform programs with the IMF and World Bank, countries such as Nigeria, Ecuador, and Uruguay will enter talks as well. Following a leadership transition, Brazil may pursue a similar course.

Creditor governments are also making important contributions through the Paris Club -- which is the established forum for rescheduling official bilateral government debt. Creditor governments are now negotiating multi-year rescheduling agreements for debtor countries with medium-term economic reform programs. By rescheduling interest as well as principal on bilateral loans, such Paris Club agreements provide greater immediate cash-flow relief than commercial bank reschedulings or even debt reduction packages. In addition, a number of creditor governments have pledged financial support to enhance specific financing packages.

Some have suggested other approaches to the debt problem which are aimed, in part, to encourage commercial banks to rationalize their developing country portfolios. For example, if debtor countries began building arrears, commercial banks' income would be reduced and the economic value of their portfolios would fall. Outside of short-term cash flows, however, the latter approach would not yield real long-term benefits for debtor countries. Long-term debt burdens would not be eased, market and investor confidence would dissipate, economic reform efforts would likely lag, and prospects for growth would remain dismal. I think we could all agree that such a scenario is not our goal. Rather, we must continue to pursue a strategy which makes commercial bank losses worthwhile by translating them into incentives for reform and improved economic outlooks for debtor countries.

Such an effort under the debt strategy depends fundamentally on the international financial institutions. In addition to continuing their project and policy-based lending over the last year, the IMF and World Bank have begun to provide special support for commercial bank debt and debt service reduction. In support of these packages, these institutions are making available the following funds:

	IMF	IBRD
• Mexico (1989-1991):	$1.7 billion	$2.06 billion
• The Philippines (1990):	$120 million	$ 150 million
• Costa Rica (1990):	$ 54 million	$ 50 million
• Chile (1989):	$ 81 million	

The agreements negotiated between debtor countries and their commercial banks could not have taken place without the IMF and World Bank. As advisers and catalysts, these institutions are our fundamental tool for bringing about serious economic reforms, and significant reductions in commercial bank debt burdens.

MDBs and the Environment

Let me turn now, Mr. Chairman, to environmental issues in the Multilateral Development Banks. This is an area in which we have received a substantial mandate from Congress to press for wide-ranging reforms over the past several years. At last count, we had thirty-five separate legislative provisions encouraging us to promote more rapid progress

toward one or another environmental objective. The most important of these objectives include environmental impact assessments, promotion of energy efficiency and conservation measures, and greater protection of the natural resource base, particularly tropical moist forests.

Environmental reform has been a key issue in our management of U.S. participation in the MDBs. However, our agenda for environmental reform is based not only on the legislative mandate we have received but also on our perception that environmental considerations must be an increasingly important focal point for all MDB activities.

At last year's Economic Summit meeting in Paris in July, President Bush asked other heads of state and government to join him in encouraging the World Bank and the regional development banks to integrate environmental considerations into all aspects of their activities. At the Annual Meetings of the World Bank and IMF last September, the President encouraged other countries to weigh environmental considerations more heavily in economic decision-making, and said that we need to work more cooperatively together to develop constructive solutions to global warming, including measures to promote energy efficiency and conservation and greater protection of tropical forests.

I have also pursued a broad range of environmental reform issues in numerous international meetings: meetings of the Development Committee of the World Bank and IMF last April and September, the Annual Meetings of the World Bank and IMF last September, and the ministerial meeting of the Organization for Economic Cooperation and Development last May. Other Treasury officials have emphasized the importance of environmental reforms in the annual meetings of the three regional banks. Such reform issues have been an important part of U.S. negotiations to replenish the resources of these institutions, particularly those of the Inter-American Development Bank (IDB) and the International Development Association (IDA). Environmental issues are also being discussed in the negotiations now going forward for establishment of the European Bank for Reconstruction and Development (EBRD).

Clearly our most significant accomplishment over the past year has been inclusion of more stringent environmental provisions in the agreement for replenishment of the International Development Association (IDA) resources. In the IDA-9 report, approved by the Board of Executive Directors of the Bank in January and forwarded to the Governors for their approval, express provisions were made for the following:

- implementation of environmental impact assessment procedures, helping to assure that environmental costs and benefits are weighed carefully early in the project appraisal process;

- increase in public access to environmental information, promoting more participation by local community groups and non-governmental organizations;

- closer collaboration and cooperation with non-governmental organizations in borrowing countries;

- greater emphasis on energy efficiency and conservation including end-use efficiencies, renewable energy technologies and least-cost planning in borrowing countries;

- more support for debt for nature swaps; and

- more rapid progress on environmental action plans.

Other substantial progress has also been made as a result of our leadership. Let me highlight a few of these major accomplishments of the past year. First, in September 1989, the World Bank adopted procedures for assuring that environmental impact assessments are completed for projects that have a significant impact on the environment. This past January, the Inter-American Development Bank established an environmental line unit and assigned fifteen environmental experts to carry out the functions of that unit. It has also sponsored a second meeting of non-government organizations (NGOs) from countries throughout the hemisphere and sought to involve environmental ministries in those countries more actively in preparation of IDB projects. It is now working on environmental impact assessment procedures.

The Asian Development Bank has continued its program for integrating environmental considerations more effectively into the project appraisal process and sought to involve NGOs from developing member countries in the identification and preparation of specific project proposals. The African Development Bank has worked closely with U.S. environmental groups in putting together the first of what it hopes will be a series of conferences with African non-governmental organizations (NGOs) interested in environmental issues.

We are pleased with the progress achieved thus far. At the same time, there is much more to do. In particular, we will have to increase our efforts to assure that the agreements we have reached are implemented effectively. In the World Bank, implementation of environmental impact assessment procedures over the next two years will be a large task. We are consulting with State, AID, EPA, and CEQ about detailing U.S. experts to assist in this process. We are also asking other countries to consider seconding experts for this purpose as well. In the regional development banks, this task will be even more daunting and will almost certainly require additional efforts by us and other developed countries.

In 1988, Treasury encouraged the World Bank to play a more active role in promoting debt for nature swaps. One recent encouraging sign has been the Bank's pursuit of a proposal to preserve an important tract of Atlantic Rain Forest in Paraguay. While the deal is not assured, there has been strong support from AID and private conservation groups.

Energy efficiency and conservation measures are another important area in which we will need to do more work. During the past year, Treasury formed an informal working group comprised of experts from AID, Energy, State, EPA and several NGOs to exchange views on how we might encourage greater emphasis on energy efficiency and conservation in the Multilateral Development Banks. Much of the specificity

that we were able to achieve in the IDA-9 Agreement grew out of the work of this group. Treasury has also been a member of the Committee on Renewable Energy, Commerce, and Trade, which seeks to encourage greater reliance on renewable energy technologies in developing countries. We are currently monitoring a program funded by the World Bank to promote greater efficiencies in household uses of energy in several countries in the Far East.

In spite of our efforts and the real progress that has been achieved within all of the banks, environmentally problematic projects continue to come forward for board consideration. Last year, in cooperation with other countries, we stopped a major power loan that would have had far-reaching negative effects on tropical forests in Latin America. Now we are increasingly concerned about forestry projects in other regions, including those that are part of the Tropical Forestry Action Plan, seeking to have greater emphasis placed on protection and preservation measures. We have encouraged the World Bank to adopt standards for evaluating projects that may adversely affect tropical forests, and are hopeful that it will do so later this year.

International Development Association (IDA)

Mr. Chairman, in addition to the finance provided through the MDB capital loan "windows," it is critical to provide special support for the low-income developing countries. The principal vehicle for this is the International Development Association. In December 1989, negotiations were completed for the ninth replenishment of IDA resources (IDA-9). IDA, an affiliate of the World Bank, is the world's single largest source of MDB lending on concessional terms. IDA plays a pivotal role in alleviating poverty and enhancing development in the poorest nations. Only countries with per capita incomes of $580 (in 1987 dollars) or less are offered IDA credits. However, the majority of IDA lending goes to countries with per capita incomes of less than $400. The ninth replenishment -- intended to fund credits to be committed during the three year period July 1, 1990 to June 30, 1993 -- will total approximately $15 billion.

An important goal of the replenishment is to maintain the size of IDA in real terms. This goal will be achieved with the assistance of the United States, which agreed to maintain the amount of its IDA-8 contribution in real terms for IDA-9. The U.S. contribution to IDA-8 was $2,875 million, $958 million annually. We are requesting authorization for a U.S. contribution to IDA-9 of $3,180 million, or $1,060 million annually for three years. Thus, the U.S. contribution would increase by $102 million a year. Still the U.S. share of IDA-9 will decline to 21.6 percent compared to a U.S. share of 23.2 percent of IDA-8.

Donor contributions combined with advance commitments from reflows will support an annual lending program of about $5.5 billion.

Throughout the IDA-9 negotiations which began in early 1989, the United States worked for measures to ensure that IDA's resources are used in the most effective and efficient manner. In this regard, the United States achieved its three major policy objectives:

- a borrowing country's economic performance, including efforts to alleviate poverty, will receive greater weight as a basis for allocation of resources;

- important new measures to address environmental concerns will be factored into IDA lending, as was mentioned above in the discussion of the environment; and

- efforts will be made to improve IDA and IMF collaboration.

Poverty reduction remains central to IDA's mandate and will play a major role in the policy dialogue with recipient countries. During IDA-9, increased weight will be placed on poverty alleviation in the allocation of IDA resources. In addition, greater effort will be made to protect the poor during the adjustment process and to involve the poor in an equitable development process. Finally, it is hoped that IDA will assist recipient countries to assure that their national plans and strategies encompass measures to eliminate the causes of and alleviate poverty.

Forty-five to fifty percent of the IDA-8 resources was allocated to Sub-Saharan Africa, with the condition that borrowing countries in the region continued to make progress on economic adjustment. This special consideration for Sub-Saharan Africa is still in place for allocating IDA-9 resources.

Although extended on concessional terms, the standards for IDA credits are the same as those for IBRD loans -- technically, economically, financially, and environmentally sound, compatible with a sound development plan, and of high priority for the economic development of the country. Japan, Germany, France, the United Kingdom, Italy, and Canada have agreed to provide about 57 percent of IDA-9 resources. Since other countries share the costs of providing IDA credits, IDA is an extremely cost-efficient way for the United States to express its humanitarian concern for the poorest of the world.

IDA has also undertaken an initiative to help ease the burden of commercial bank debt on the poorest countries. As a result, $100 million of IBRD net income from FY 1989 was targeted last fall to finance commercial bank debt reduction in IDA-only countries. Eligibility for these resources is conditioned on strong economic reform programs and sound debt management strategies.

Finally, Mr. Chairman, in the context aiding the poorest of the world, I want to note that the United States and other official creditors are taking measures to assist the least developed countries that pursue sound economic reform programs. These measures include both special treatment ("Toronto terms") for the poorest countries in Paris Club reschedulings and bilateral actions to convert old development assistance loans into grants. We are moving ahead with a $850 million program to forgive economic assistance loans to Sub-Saharan African countries pursuing economic reform. So far this program has been made available to 14 countries.

Eastern Europe

Developments in East Germany, Czechoslovakia, and Romania have transformed the challenge we faced in Eastern Europe last fall when Poland and Hungary appeared to be well in front of the other countries of the area. The broad-based demands of Central and Eastern Europe pose a challenge for the United States, in particular, for our ability to provide financing and economic assistance from our limited resources.

As you know, the Administration is currently discussing with our allies the creation of a European Bank for Reconstruction and Development (EBRD). Depending on the outcome of the negotiations, the EBRD should offer a vehicle for leveraging U.S. and other resources in a cooperative effort with Europe to address the economic problems associated with Eastern Europe's transition to market-based economies. As a multilateral bank with paid-in and callable capital, the EBRD would receive funding from its membership and have the backing of members to borrow from their capital markets. Members' contributions could therefore be leveraged through this type of facility just as they are through the World Bank.

It is important to point out that the United States can demonstrate considerable support for Eastern Europe by supporting the World Bank. The World Bank has initiated a program to lend $5 billion dollars to Eastern Europe over the next three years, including $2.5 billion to Poland. In fact, $1,127 million in loans is now pending for Poland, $586 million is pending for Hungary, and $1,370 million for Yugoslavia. Despite the strongly held political rationale in Europe for forming the EBRD, we should not forget that the World Bank is an established, fully functioning institution now -- not a year or two down the road. On the other hand, if the EBRD is established in accordance with our objectives it will be the only MDB with a substantial part of its lending program aimed exclusively at the private sector. In addition, it will focus entirely on Eastern Europe.

Promoting the Private Sector

Mr. Chairman, the recent events in Eastern Europe and elsewhere testify forcefully to the consequences that befall economies lacking a vibrant private sector. This morning, I would like to focus on a special aspect of what the MDBs are doing to promote the private sector -- the privatization of state-owned enterprises (SOEs).

Privatization is a global economic movement which the MDBs are encouraging. Privatization of SOEs is a critical instrument in the international debt strategy. It has the dual benefits of reducing government financial obligations and allowing companies to act on market incentives. The MDBs are well-situated to assist governments in the difficult and complicated process of planning and implementing a privatization program.

For example, the World Bank encourages government efforts to privatize SOEs through loans which provide for divestiture and other methods of privatization, as well as liquidation of insolvent SOEs. At the recommendation of the Private Sector

Development Review Group, the Bank is expanding its support for privatization of SOEs through:

- research on the institutional and incentive framework;
- legal analysis of privatization;
- increased privatization components of adjustment loans and country economic sector work;
- consideration of ways to increase the role of the private sector in the provision of infrastructure and social services;
- expansion of adjustment lending for financial sector reform; and
- promotion of direct foreign investment.

Through adjustment lending, the World Bank has assisted in the privatization programs of the Congo, Jamaica, Mexico, Morocco, Niger, the Philippines, Togo, and Venezuela. The number and economic significance of the SOEs privatized vary widely from country to country. However, Jamaica and Mexico are notable for having privatized some of the largest enterprises in their economies. The Jamaican Government has divested itself of Caribbean Cement, the National Commercial Bank, and Telecommunications of Jamaica. Mexico divested enterprises such as Mexicana De Aviacion, Aeromexico, and several important railroad companies. Some very large divestitures are now in the process of being privatized, including the telephone company TELMEX, the fourth largest company in Mexico (the oil company PEMEX is the largest). Mexico has also announced its intention to privatize Cananea, one of the largest copper mines in the world.

The various departments of IFC provide distinct services to governments and corporations in the privatization process. The recently created Corporate Finance Services group can manage a privatization from start to finish -- from restructuring the company, finding suitable investors, and providing regulatory framework advice, to putting together an underwriting syndicate or arranging a private sale.

Through Advisory Services, the IFC provides feasibility studies to governments planning to embark on a privatization program. IFC's Capital Markets Department arranges for portfolio investment in privatized SOEs and can underwrite their corporate equity offerings. Finally, IFC's Regional Investment Departments contribute to privatization through their experience in the appraisal and financing of projects in various industries. Project investments may lead to privatization as the government sells its shares in an enterprise to private investors.

The IFC is well-positioned to be an "honest broker" in privatization transactions, reconciling the differences that arise between the various interest groups in implementation. The IFC assisted in privatization projects covering a broad cross-section of economic sectors in Argentina, Indonesia, Jamaica, Liberia, Malaysia, Mozambique, Nepal, Nigeria, Pakistan, Philippines, Rwanda, Swaziland, Togo, Trinidad and Tobago, Tunisia, and Venezuela.

The Multilateral Investment Guarantee Agency (MIGA) provides policy advice regarding foreign investor participation in privatization through the Foreign Investment Advisory Service. MIGA will also make guarantees available for investments in privatization of an existing SOE.

The privatization efforts underway with World Bank Group assistance are numerous and varied. The success of programs underway in Jamaica, Mexico and the Philippines will encourage the privatization process in other developing countries. However, privatization should not be a goal in and of itself. An economic environment conducive to growth and efficiency is necessary for private firms to be more productive than SOEs. A financial sector that efficiently mobilizes resources and allocates credit is critical to a strong private sector.

Conclusion

Mr. Chairman, I cannot emphasize too strongly the Administration's commitment and full support for the MDBs. As you know full well, they are important instruments in the conduct of U.S. foreign and international economic policy. In concluding my remarks today on the MDBs I want to mention briefly -- to remind ourselves -- of their invaluable attributes. The MDBs:

- complement U.S. financial support to countries strategically important to the United States which receive U.S. bilateral economic assistance, such as Pakistan, the Philippines, and to countries like Mexico which receive no U.S. economic assistance;

- greatly enhance U.S. ability to react positively to changes in the political landscape such as the events in Eastern Europe and Central America, and to changes in the economic landscape like Third World Debt problems and awakened environmental concerns;

- advance the broad U.S. economic objective of promoting the growth of a free, open, and stable economic and financial system by encouraging and supporting developing country movement toward more open trade and capital flows, including greater reliance on the private sector and free market pricing;

- support the U.S. objective of improving the quality of life for impoverished people in developing countries, particularly through soft loan windows, and special funding for social programs;

- contribute to expanding employment in the United States by increasing exports both directly from procurement stemming from finance provided by the MDBs, and indirectly through other procurement possibilities generated by the non-MDB finance associated with MDB projects. (U.S. business has received $15.2 billion cumulatively from the World Bank, which is 9 times U.S. paid-in capital. There are also tertiary benefits from business generated through contacts established in bidding on MDB projects.)

Mr. Chairman, the vital role of the MDBs is of signal and enduring importance to U.S. national interests. The important attributes the MDBs exhibited during the cold war remain essential qualities as the cold war abates.

Moreover, there is another aspect to the MDBs that is enduring: the burden of financing the operations of these institutions is shared by all member countries. As I mentioned above, U.S. financial support for the MDBs results in over 21 times that amount of lending as a result of intermediation of private capital markets and the contributions of other donors. The cost to the United States of trying to duplicate bilaterally what is achieved through the MDBs would be prohibitively expensive.

Given these benefits, Mr. Chairman, it is essential that we give these institutions our financial support for the United States to continue to play a leadership role.

ANNEX

Fiscal Year 1991 Budget Request

We are requesting $1,736.3 million for the MDBs and $10.6 million for the IMF's Enhanced Structural Adjustment Facility (ESAF) in FY 1991. These funding requests reflect both the need for budgetary restraint and the financial requirements for effective development programs. Our MDB request is comprised of MDB funding requirements currently due for payment, $1,468.1 million, and $268.2 million in U.S. funding shortfalls to the MDBs. These requests are composed exclusively of funding requirements negotiated by the Administration in close consultation with this Committee.

International Bank for Reconstruction and Development (IBRD)

For the IBRD (also known as the World Bank) in fiscal year 1991, the Administration is requesting: 1) $40.5 million in budget authority and $2,241.9 million under program limitations to complete the first and second installments to the 1988 General Capital Increase (GCI); and 2) $70.1 million in budget authority and $2,267.4 million under program limitations for subscription to the third installment.

The Bank's principal role today is making long-term credit available for productive projects, which will lead to economic and social development in its less developed members. These loans carry market interest rates. In addition to project finance, the IBRD provides policy advice and technical assistance and financing in support of structural reform, and serves as a financial catalyst and institution builder.

International Development Association (IDA)

For fiscal year 1991, the Administration is requesting: 1) $4.1 million to complete the third and final installment to IDA-8, and 2) $1,060 million for the first of three installments for the $3,180 million U.S. share of the ninth replenishment of IDA resources. IDA, an affiliate of the World Bank, is the single largest source of development assistance for lending on concessional repayment terms to the world's poorest countries. Over 96 percent of IDA lending goes to countries with an annual per capita income of $400 or less.

International Finance Corporation (IFC)

For fiscal year 1991, the Administration is requesting: $40.3 million in U.S. funding shortfalls to complete the U.S. subscription to the $650 million IFC capital increase. The IFC provides risk capital as well as long-term loans; plays an important role as a catalyst in attracting private capital; and provides technical assistance to developing countries that want to encourage domestic and foreign private investment.

Inter-American Development Bank (IDB)

For fiscal year 1991, the Administration is requesting (1) $0.136 million in budget authority to complete the U.S. commitment to the sixth IDB capital increase; and (2) $57.3 million in budget authority and $2,235.1 million under program limitations for subscriptions to the the first of four installments to the seventh capital increase of IDB resources (IDB-7). The Bank makes loans at market related rates. The lending program is designed to help the long-term development of the countries in Latin America and the Caribbean.

Fund for Special Operations (FSO)

For fiscal year 1991, the Administration is requesting (1) $0.274 million in budget authority to complete the U.S. commitment to the sixth increase in FSO resources; and (2) $20.6 million in budget authority for the first of four installments for the $82.3 million U.S. share in the FSO component of the seventh increase of IDB resources (IDB-7). The FSO lends on concessional terms and addresses the long-term development needs of the poorest countries, primarily in Central America and the Caribbean.

Inter-American Investment Corporation (IIC)

For fiscal year 1991, the Administration is requesting $25.5 million in U.S. funding shortfalls to the IIC. These funds, for the third and fourth of four installments to the IIC, would complete the U.S. commitment to this institution. The IIC is linked to the IDB, and is designed to support private sector activities in Latin America through equity and loan investments that focus primarily on small- and medium-scale enterprises.

Asian Development Bank (ADB)

The ADB is currently making lending commitments on the basis of capital stock that is fully subscribed by Bank member countries, including the United States. Hence, there is no need to request funding for the ADB in fiscal year 1991. The Bank makes loans at market rates to developing member countries in a region of world of key importance to U.S. strategic and economic interests.

Asian Development Fund (ADF)

For fiscal year 1991, the Administration is requesting: 1) $155.7 million in U.S. funding shortfalls to the second and third installments to the fourth replenishment of ADF resources; and 2) $146.1 million for the fourth and final regularly scheduled installment. The ADF is a source of concessional finance to the poorest member countries of the ADB. Pakistan, Bangladesh, Sri Lanka, and Nepal are the major borrowers from the Fund.

African Development Bank (AFDB)

For fiscal year 1991, the Administration is requesting: 1) $1.1 million in budget authority to subscribe to paid-in capital and $0.580 million in program limitations to complete the third of five installments to increase the Bank's capital base; and 2) $9.0 million in budget authority and $134.8 million under program limitations for the fourth U.S. installment. The Bank makes loans on market-related terms for the economic and social development of fifty African member countries, individually and through regional cooperation. The AFDB is an important part of the U.S. commitment to work with the countries of Africa for the achievement of their long-term development objectives.

African Development Fund (AFDF)

For fiscal year 1991, the Administration is seeking $.452 million in budget authority to complete the second of three installments for the U.S. contribution to the fifth replenishment of AFDF resources; and (2) $105 million for the third and final installment. The Fund complements AFDB operations by providing concessional financing for high priority development projects in the poorest African countries. The United States has a strong humanitarian interest in aiding the poorest countries of the world's least developed continent through its support for the AFDF.

IMF Enhanced Structural Adjustment Facility (ESAF)

For fiscal year 1991, the Administration is requesting $10.6 million in budget authority to complete a one-time U.S. contribution of $150 million to the Interest Subsidy Account of the ESAF. The ESAF provides financial assistance on concessional terms to the poorest countries experiencing protracted balance of payments problems.

INTERNATIONAL ENVIRONMENTAL COOPERATION

Senator LEAHY. Well, we will have discussion on the European Bank and I think probably have a number of questions.

I was just thinking when you mentioned Brazil, about the new President, President Collor de Mello. He said he would welcome international cooperation on Brazilian environmental issues, which is certainly a change from his predecessor. Can we combine debt relief for Brazil for actions by that country to stop the destruction of the rain forests?

Secretary BRADY. Well, we have an active program in the Treasury to try to facilitate the conclusion of these debt-for-nature swaps, which are complicated and involve a series of different organizations: the host country, one of the NGO's, and the commercial banks. We have encouraged the World Bank to become more involved in these swaps, and we certainly hope that that will be the case.

I can tell you this: there is nothing more important in the Treasury than to be responsive to the environment. We think debt-for-nature swaps are a particularly attractive way, albeit a complicated transaction, to finally get to a beneficial conclusion.

MEXICO DEBT

Senator LEAHY. Let me just talk about Mexico and the Brady plan for a moment. Some in the Treasury have said that the

Mexico agreement was a big success; others say that Mexico's debt is hardly going to shrink over the next few years. The Third World countries are paying the rich countries about $50 billion more than they are taking in, up from around $10.84 billion. Today, Mexico's debt, I believe, is about $95 billion. How much better off, really, will Mexico be 5 years from now?

Secretary BRADY. Well, I think they will be a lot better off, Mr. Chairman, but I must admit I am an optimist by nature. And with regard to the comment about—not your comment, but the comment that is made in the press—that this really does not help Mexico, all I can tell you is the Mexicans think so. Most of the people who say it does not help Mexico are outside Mexico. I wish you could have been present at the ceremony in Mexico where the banks signed with the Government of Mexico. It was at the Office of the President, and 500 people attended from the Mexican Government and Mexican business establishment. People down there tell me that there has not been such a gathering before. So I am optimistic about it, and I would just like to say that the Mexicans think it is a great deal. I do not worry about the others outside of Mexico who come forward with the criticisms that you have set forth. I worry about what the Mexicans think, and they think it is great.

Senator LEAHY. How much public money went into the Mexico deal? I understand about $350 million. Is that correct?

Secretary BRADY. I will ask Charles Dallara to answer that question.

Mr. DALLARA. Well, I think the $350 million that you are referring to, Mr. Chairman, was associated in some sense by some reporters and analysts with the decision on the zero coupon bond. And that certainly was not a taxpayer contribution, Mr. Chairman.

Secretary BRADY. Is that what you are referring to, Mr. Chairman?

Senator LEAHY. Yes; I was wondering if public money went into the Mexico deal.

Secretary BRADY. Not that I am aware are of. You mean U.S. public money? I do not believe so, unless it is out of some authorized pocket from Congress that is part of the process.

Mr. DALLARA. If I may add, Mr. Secretary, there is no direct bilateral U.S. public money involved in that deal whatsoever. The only public money, in that sense, Mr. Chairman, is the support that we indirectly provide through the funding of the IMF and the World Bank.

Senator LEAHY. And how much IMF and World Bank funds went in there?

Mr. DALLARA. The additional funds that are part of this picture, Mr. Chairman, from those two institutions, I believe, are approximately $1.8 billion.

Senator LEAHY. And if we were to figure on our normal pro rata share of contributions to the World Bank and IMF, what would that be?

Mr. DALLARA. Roughly 20 percent of that. Roughly $360 million.

Senator LEAHY. The Wall Street Journal, if I understand the article correctly, in January this year, said the Mexico deal offered

banks 65 cents on the $1 for their old loans. Does that figure seem right?

Secretary BRADY. Well, the banks had a menu of options, Mr. Chairman. One was a so-called discount bond which was exchanged for existing debt at 65 cents on the $1. They also could go for interest rate reduction, or they could put up new money. So they had three options.

Senator LEAHY. But if they took the 65 cents on the $1 for their old loans, if they had just gone out on the street and tried to sell those, what would they have gotten? 5 or 10 cents?

Secretary BRADY. Oh, no; I think that the free-market valuation of Mexican debt was somewhere around 40 to 45 cents, if I am not correct. But the point is, that is what we used to call in the banking business a 10-bond market. By that I mean you could sell 10 bonds that way, but you could not solve Mexico's financing problems in any sense of the word by operating off that market.

Mr. DALLARA. I might add, Mr. Chairman, if I may, that selling that debt into the secondary market would convey no benefit whatsoever to Mexico because they would still have exactly the same amount of outstanding debt. It would just be held by a different creditor.

Senator LEAHY. But it would be a benefit to the banks to sell it this way. More benefit to them than to sell it on the open market.

Mr. DALLARA. Well, I think that it would depend upon ultimately what price they were able to obtain. But I think what we have underway is a process that would convey a benefit to the country.

Senator LEAHY. The individual banks might get more money under this plan than they would on the open market?

Secretary BRADY. Well, here is the difference, Mr. Chairman. If you sell in the open market, regardless of the price at which you sell, the buyer still has a claim of 100 par on the Mexican Government. When we did the Mexican deal, those banks were willing to write down their loans to 65 percent—reduce their claim on the Government to 65 percent. So there is a big difference between the two transactions as far as the Government is concerned.

Senator LEAHY. Can Mexico service their debt?

Secretary BRADY. They are now. I think so.

Senator LEAHY. A year from now?

Secretary BRADY. I think so.

WORLD BANK AND THE ENVIRONMENT

Senator LEAHY. Incidently, you had said in your prepared statement that environmentally problematic projects continue to come forward for board consideration at the World Bank. I know that you know that we are serious about the environment here, and that it is something that is very much of a bipartisan message here, but I hope the World Bank economists who might be listening or following this hearing get the message.

I am going to be very reluctant to support any contribution to the World Bank next year if their environmental image does not improve and if their environmental sensitivity does not dramatically improve. If we build a lot of dams, electric powerplants, and

roads and destroy the environment at the same time, it does not do a great deal of good.

So I do not question your commitment, Mr. Secretary, to the environment, but I hope the World Bank is listening carefully. If they do not get their act together on the environment they may get other votes in the Senate, but they will not get my vote for any contribution whatsoever.

I yield to Senator Kasten.

Senator KASTEN. Mr. Chairman, thank you.

Let me just say that, at least from the point of view of this committee, that statement is a bipartisan statement of the leadership. As you know, for a number of years, we have been involved in these issues with the World Bank and the Inter-American Development Bank beginning with the Polonoredeste project in Brazil. I think that without question, Secretary Baker before you and now you are taking a very strong position, and we just have to be sure that it continues.

Mr. Secretary, Public Law 101-167 requires the Treasury to take several initiatives to promote debt-for-nature exchanges. The first among these is a requirement that each multilateral development bank be instructed to seek and support lending portfolios that allow debt restructuring in concert with sustainable use and management of natural resources.

The two other MBD debt-for-nature requirements are to: First, seek support for this initiative from other MDB member nations; and second, to establish a debt-for-nature clearing house at the World Bank in accordance with the Treasury recommendations of April 1, 1988.

What I would like to ask, Mr. Secretary, is if you would provide us for the record with a summary of what specific actions have been taken to date on each of these requirements with regard to the World Bank, the Inter-American Development Bank, the African Development Bank, and the Asian Development Bank. In other words, we just want to track what we did last year and to see exactly what progress has been made and what specific steps have been taken by the MDB's. I am afraid that the debt-for-nature concept might get lost in the shuffle unless we try to walk this through step by step by step. I know it has strong support from you and it has very strong support from the Congress. So you may make a brief comment on my question, or I will simply submit this question for the record, and you can give me a listing of the actions that have taken place as a result of the law that we passed last fall.

Secretary BRADY. I believe, Senator Kasten, you have written me a letter on this subject. I sent a reply to you which you probably have not received because it was just sent last night.

Senator KASTEN. OK. Good. And I will provide that information then to the committee for the committee record as well.

[The information follows:]

LETTER FROM SENATOR ROBERT W. KASTEN AND SENATOR PATRICK LEAHY

March 2, 1990

The Honorable Nicholas F. Brady
Secretary of the Treasury
Department of the Treasury
Washington, DC 20220

Dear Mr. Secretary:

During the past several years the Subcommittee on Foreign Operations has directed, through legislation and report language, the multilateral development banks (MDBs) to pay more attention to the adverse environmental impact of their loans. While there has been progress, we still have not seen the degree of commitment to environmentally sustainable development which we believe is essential. In last year's foreign operations bill we included several additional provisions designed to move the MDBs further towards that goal.

In developing countries that are desperate for foreign exchange, tropical ecosystems are being ravaged for short-term economic gain. If the MDBs are to continue to have a central role in solving the debt crisis, it is imperative that provisions in last year's foreign operations bill designed to ameliorate these effects be fully implemented.

Section 533(e)(1) of the bill requires the MDBs and the IMF to make the policy link between debt reduction and sustainable natural resource use. The MDBs must begin to assess each debtor's debt-service capacity, medium-term adjustment program, and financing plan in the context of environmentally sound management of natural resources.

These assessments are crucial because they serve as the basis not only for MDB lending programs but also for commercial bank debt reduction negotiations. A step which you should take immediately would be to instruct the US Executive Director to request information on the environmental problems, programs and policies in those countries--Mexico, Costa Rica, the Philippines and Venezuela--where MDB debt reduction support funds have already been set aside by the MDBs. The US Executive Director should then implement the program required under this section for each debtor country which requests debt reduction support funds from the MDBs.

Section 533(f) of the bill requires you to incorporate natural resource management initiatives throughout the implementation of the Brady Plan.

We believe that the criteria of "sound economic policies" by which a country qualifies for debt reduction under the Brady Plan should include sound environmental policies adopted by a country to use and manage its natural resource base sustainably. Environmental officials and representatives of nongovernmental environmental organizations from debtor countries should be invited to participate in Brady Plan negotiations. These experts will make valuable contributions to the menu of debt reduction options being considered.

These provisions, if fully implemented, will help to promote economically and environmentally sustainable growth by reducing

--

debt burdens and providing financial resources for development and conservation projects.

Thank you for your consideration.

Sincerely,

ROBERT W. KASTEN
Ranking Minority Member

PATRICK LEAHY
Chairman, Subcommittee on Foreign Operations

LETTER FROM HON. NICHOLAS F. BRADY

The Honorable Robert W. Kasten
Ranking Republican
Subcommittee on Foreign Operations
Committee on Appropriations
United States Senate
Washington, D.C. 20510-6025

March 21, 1990

Dear Bob:

I am writing in response to your March 2 letter in which you express concern about promoting environmentally sustainable development within the multilateral development banks (MDBs).

We are aware of those provisions of Section 533 of PL 101-167 which call on us to instruct the U.S. Executive Directors to support lending portfolios which facilitate debt reduction or restructuring in concert with sustainable natural resource use and to incorporate natural resource management initiatives throughout the implementation of the strengthened debt strategy. Reducing developing countries' debt burdens and advancing environmental concerns are high priorities of the Treasury Department, as well as the Administration as a whole.

We have already instructed the U.S. Executive Directors to implement Section 533 and are working with them to explore ways to implement these provisions in a useful manner. We will need to avoid rigidly linking debt reduction and environmental issues in an unproductive way, however.

Many of the efforts now underway in the MDBs are producing progress in ensuring that borrowing countries' basic development strategies are environmentally sound and compatible with sustainable resource management and economic growth. We have made important strides in expanding public access to World Bank environmental information -- thereby facilitating more participation by local community groups and non-governmental organizations.

In September, 1989, the World Bank adopted procedures for assuring that environmental impact assessments are completed for projects that have a significant impact on the environment. These procedures will help to ensure that environmental costs and benefits are weighed carefully early in the project appraisal process. Under the International Development Association's (IDA) Ninth Replenishment agreement, environmental assessments of IDA

projects will be made available to the public at an early stage in the project cycle. Installing such procedures in the regional development banks is an important focus of our current efforts.

In addition, the World Bank is now developing environmental action plans to guide overall, national approaches to environmental issues. Such plans will be developed for all IDA borrowers. An environmental sector lending program is also being created.

Such environmental sector loans, as well as specific projects, are particularly important in larger countries where a comprehensive strategy for addressing environmental issues is less practical. In Brazil, for example, the World Bank has made an environmental management sector loan aimed at improving policy-making on these issues nation-wide. In the Philippines, the World Bank has underway an environmental and natural resource loan designed to develop institutional and incentive structures which will promote sustainable resource management techniques. In Mexico, the World Bank is focussing on pollution control in the capital city.

As part of our ongoing effort to advance environmental concerns and sustainable natural resource management, we will continue to press the MDBs for action in these areas. We believe that incorporating environmental concerns more fully into MDB lending operations is the right approach for seeking to ensure that sound environmental policies are in place in developing countries -- including those that are receiving World Bank support for commercial bank debt reduction. The U.S. Executive Directors to the MDBs and Treasury staff follow closely progress in this area, as well as specific country problems and policies.

In regard to the integration of natural resource management in the debt strategy, I want to emphasize that reductions in debt burdens are negotiated between countries and their commercial banks. The U.S. government is not in a position to require that these parties involve environmental representatives in their discussions. Adding specific environmental issues -- or negotiators -- to debt reduction talks could further complicate and delay negotiations critical to the economic and financial positions of debtor countries.

We share similar objectives in seeking to reduce debt burdens and promote economically and environmentally sustainable growth in developing countries. I value the ongoing dialogue we have maintained on these issues and hope I can count on your support as the Administration presses forward in this area.

Sincerely,

Nicholas

NEW EUROPEAN DEVELOPMENT BANK

Senator KASTEN. Let me give you an opportunity, Mr. Secretary, to respond to some of the questions that I raised with regard to the new European Development Bank.

First of all, what are the administration's benchmarks for deciding whether or not the United States will participate in a European Development Bank? Would we, for example, agree to participate if the Soviets are allowed to borrow? Is the administration con-

cerned about the socialist central planning mindset of those who will be setting the Bank's lending policies?

If we participate, will there be a significant budgetary impact? I have heard $80 million for starters. I have heard other numbers. I have heard 8.5 percent up to 11 percent that we would have of the voting membership.

The purchase of the shares of capital stock in the Bank, as I understand it, would be denominated in the form of floating nonfixed units of account, which would mean an open-ended U.S. liability for paid-in capital and for callable capital.

In other words, exchange rate volatility could bust the budget, or at least you could be coming back to us saying that in order to maintain the level of support that we committed to, we have to ask for an additional appropriation. Now, I understand that that could work the other way, too, but generally speaking, we participate in dollars in these institutions, which gets rid of that whole question.

So let us go through that series of concerns first.

Secretary BRADY. OK, fine. And if I may, I would like to just add a few comments on your opening statement at the end.

You asked five questions. First, what is our position on Soviet borrowing? Our position is that the Soviets should not be allowed to borrow more than the amount of their paid-in capital. If they pay in $200 million, then they ought to be able to borrow that back because, in a sense, that is not borrowing; they are taking back their own money. If the Soviets were to be permitted to borrow in excess of their paid-in capital, then we would be against the United States joining the EBRD, and we have so conveyed our position to the Soviet authorities.

Second, with regard to your concern over the type of lending that this Bank might be engaged in because of the constitution of its members, we also are insisting that in the charter and bylaws that there be strict prescriptions about how much could be lent for infrastructure as opposed to private sector loans. Our position is that only up to 40 percent of the Bank's lending authority be allowed to be used toward infrastructure and 60 percent would have to go to private sources. This, of course, would be a much stricter prescription than in any other multilateral bank.

Third, you are correct in saying that $70 million would be the budgetary effect in the next year.

Fourth, with regard to the amount of our ownership, it has not been discussed in a concrete form as the issues in the three previous questions have been. But it would be between 8.5 percent and 10 percent. The largest amount that any of our European partners would contribute is 8.5 percent. It has been suggested that we put in 10 percent because that would give, or could be viewed as giving, the United States a more significant position. But in comparison with the European Community, which will have 51 percent, which I think is Senator Kasten's worry, of course, it is significantly less. But the issue of shares is not a hard point for either the United States or for the Europeans.

Fifth, the ECU worry that you have is simply a nonnegotiable position as far as we are concerned. Our contributions have to be in terms of dollars. We cannot be in the position, as you suggested, of

being subject to currency variations. So, although that is not settled, everybody is very clear about what our position is.

I might take just one more minute to reply to your opening statement, Senator Kasten, where you voiced your concern about the fact that the Soviets would dominate the Bank. I do not feel that that is going to be the case. What we are trying to accomplish here is to act on the thoughts that President Bush has put forward which are, as we try and help the Eastern bloc economies and the Soviet Union move their economies from command societies into free-market societies, that we give them the opportunity to see how it works. In other words, what better idea than to ask them to watch and see what is going on, to add technical assistance where we can, and to encourage them to take the steps they said they want to take.

So the philosophy behind it is that, with respect to the Soviet Union, which is probably the farthest behind in this category, that we try and bring them into a close proximity with the way the rest of the world's free-market societies operate. This is a very good way to do it. We think that if we restrict them to only being able to borrow what they put in, then that is a very salubrious way to try and help them make this gigantic move.

I would say just one more thing and then stop on this subject. The people who voted for democracy in the Eastern bloc and the movement in the Soviet Union toward that end had as a goal the end of tyranny and occupation. But, also, I think we have to be realistic about it. Those votes for freedom and democracy were also votes for food in the grocery stores and goods on the shelves. They see how well free-market societies have done. It is up to others to separate how much is freedom and how much is a better way of life. I think that the real problem that we are going to have is if the progress toward food in the grocery stores and goods on the shelves is not evident to these people, they are going to begin to wonder whether they have done the right thing.

So our position is let us try and stay away from some of the concerns that you have evidenced. Let us make sure we are doing everything we can to help, not in a monetary way necessarily, but in ways that will let these countries see what we do, and see the vitality that is produced out of free-market economies. Let us see if we can get them to understand what this march that they have embarked on will really produce.

Senator KASTEN. Mr. Secretary, I do not think any of us have any quarrel with anything that you just said. The question is how you do it. And the reason that Senator Dole and I and others are introducing legislation today to establish a special facility at the World Bank is to do exactly that. Look at the existing multilateral development banks. Here is a bank that is designed to serve seven or eight countries. All the rest serve many, many more than that. I agree in terms of the free-market efforts, I agree that they are looking for help at the grocery store and we need to give it to them.

Mr. Secretary, do you have any figures on the number of employees that will be required to run this bank? The kind of salaries that employees of the bank will receive? Where the bank would be located? How much it would cost to start up the whole new bu-

reaucracy? I think this is one more argument for creating a special facility at the World Bank, one that utilizes the people and the procedures and the lending practices already in place, and we could immediately begin to work. We would not have to start from ground zero.

Secretary BRADY. Well, Senator Kasten, in answering your questions, let me not get into the position of being argumentative with you, with whom I share so many basic principles. But let me please offer some points.

First of all, we do have other regional banks. We have an Inter-American Development Bank, an African Development Bank, and an Asian Development Bank, which are particularly aimed at the regions that they are chosen to serve.

I would also make one further point: whether we join this European Bank or not, it is going forward. I know you understand that. I think one of the questions we have to face is if we do not join it, what sort of effect does that have and what sort of a signal does it give to the Eastern bloc countries that are so counting on our help and who come to Washington once a week to ask for our assistance.

You have asked some particular questions about the number of employees. Unless Charles Dallara knows—and I will ask him to see if he has an answer—my understanding is that we have not reached that stage of our discussions. But suffice it to say that it will be a lot. I imagine that is the point that you are making: why have more. But again, I go back to the fact that the bank is going to go forward anyway.

In answer to your other questions, the location of the bank's headquarters has not been decided. There are a number of capitals vying for it: London, Vienna, Paris, Berlin. Our feeling is that it ought to be in Prague, Czechoslovakia, as a sign to the Eastern bloc countries where the locus of activity will be. Nor has the nationality of the chairman been chosen. Those are still points that are up in the air.

Senator KASTEN. Mr. Chairman, thank you.

Senator LEAHY. Thank you.

Senator Lautenberg?

Senator LAUTENBERG. Thanks, Mr. Chairman.

Very quickly, Mr. Secretary, I share your views. The one thing that we dare not leave out is the opportunity, the pure economic opportunity that might be available in that Eastern European marketplace. And we can stand on the sidelines and just say no and be left out. We are going to have a whole new competitive force out there when 1992 gets into place, and we better get our machinery geared up and we better take advantage of the marketplace that will be afforded there.

And I, too, share the concerns of the Senator from Wisconsin and others that we do not put our money, put our resources in a situation where we have just thrown it down the drain. That is not the idea.

The idea is to help this democracy continue its development and to encourage American businesses, where prudent, to get in there and take part of the leadership role that we used to enjoy and I would love to see it us regain.

Mr. Secretary, I will leave that. You know my interest in environmental issues and how I have tried to relate our activities to the national interests of other countries in joining us in fighting back against the continued pollution of our environment. So it is fair to say, is it not, that you also, having registered your views before, believe that it is important to encourage the underdeveloped countries to protect their environment at the same time they try to develop their economies and promote industry. Fair enough that you join in this?

Secretary BRADY. Absolutely.

Senator LAUTENBERG. OK. I wonder then whether if we extend that just a little bit or maybe a longer distance to say that, in general, where American companies developing products have, as a result of our environmental initiatives, higher costs for operating. How would you feel about some measure of cost being attached to products imported here that might be made cheaper at the cost of damaging the environment. If we were to try to level a playing field in some way, do you think that would be a good idea?

Secretary BRADY. Well, Senator Lautenberg, we have discussed a number of times our joint concern for the environment. I think that although the economics of what you have suggested are probably pretty accurate, I would wonder how we would determine the exact component of cost that could be attributed to environmental lack or advantage from the producing country. And frankly, that discussion would run contrary to what we are trying to do now on the world trading scene which is to make sure that we do not have trade barriers between countries which can be argued about and used as devices, wedges, and levers to escalate trade barriers which we are trying to reduce.

So I think that is the other side of the argument, and I think your concern is accurate and the economics are probably exact.

Senator LAUTENBERG. And I am concerned about making it more difficult to continue to develop good trade relationships, but I wonder whether we might consider some GSP status or other tariff benefits from the United States on environmental considerations to make sense is a way to start a process.

I mean, no matter how much we do here to improve our environment, it is never recognized, that whatever we do we will never achieve the level of environmental quality that we want unless other nations around the world join us. You cannot settle the problem of the ozone layer without having participation from everybody. And I see an opportunity here with a sensitivity, people worried about whether or not we are going to be inducing poor health conditions as a result of the destruction of the protective layers.

Is there any way that you see that would suggest that we might involve these countries in activities that are compatible, at the same time offering them some kind of an incentive?

Secretary BRADY. I cannot give you an exact prescription except to say that the pressure we are exerting through the multilaterals is being felt. I believe there are over 100 people now in the World Bank who are involved in the processing of environmental impact statements that the countries that go to borrow money from the World Bank will be required to submit or on other environmental

issues. Day by day, the importance of the environment is reinforced in their minds.

I can also tell you that at the economic summit last year a discussion of the environment ensued between the heads of state, which people who had been at previous summits said had not taken place before. So I think we are getting each country's top level attention on the issue that we did not have before.

Senator LAUTENBERG. Just let the record reflect the fact that you and I agree on the worthwhileness of the pursuit and the fact that there is an increased awareness and discussions do take place. I am going to continue to try to find ways to try to equalize the contribution to a better environment, and one of the only ways I can see, Mr. Secretary, are through the trade side or through some incentive side or through some help, but we will leave that subject for another time.

I wanted to just ask if you have a view on how far the Soviets have come with their economic reforms. How much progress is going to be necessary before they are ready in your view for broader participation in IMF, World Bank, GATT, et cetera, other international economic agencies?

Secretary BRADY. Well, with regard to observer status in those organizations, we would follow the President's line and encourage, in any way that we can, ways to draw them into this process. Of course, that is the reason why we feel the proper position for us to take on their membership in the European Bank, if we are able to satisfy other conditions, is to welcome them. We would agree to their membership, but only allow them to draw out an amount equal to their paid-in capital, which we feel does not place them in the position of being able to borrow other than their own money.

So our approach is to try and work with them in almost every way we can as their movement toward free markets and freedom for their own citizens continues. I know you have been there this last week. We had a chance to talk ahead of this meeting and I think we shared a number of common views and some worries that this process be put into place as quickly as we both think might be necessary.

Senator LAUTENBERG. It is a unique situation where, contrary to most other situations, it almost looks like the Government was more prepared for democracy than are the people in the country.

And you hit it on the head. I mean, they are looking at fundamentals: what can I get to eat? They sell contaminated meat from the Chernobyl area. They sell contaminated fish from the Volga. They put signs on it on the shelves and advertise it at discount prices, and people buy it in desperation to get themselves some nourishment.

Mr. Secretary, I have other questions, and in respect for your time and the fact that I have been warned by the chairman that I am running overtime, we will submit those to you and ask for a response. And I thank you very much.

Secretary BRADY. Thank you.

Senator LEAHY. Thank you very much.

Senator D'Amato?

Senator D'AMATO. Thank you, Mr. Chairman. Mr. Secretary, you are indeed fortunate because the chairman has given me an admonition that I should not go into my usual tactics.

Having said that—I do not know what he meant by that, but having said that, I want to underscore the chairman's, and particularly the ranking member's, concern about the environment, its protection, and continuing need to move the World Bank and others in a direction where the moneys that they make available are tied to environmental protection while not overburdening the countries who call upon these institutions for financing.

I worry that we can sometimes overburden impoverished borrowers. I just received two stacks of environmental impact statements from the Air Force concerning the Fort Drum range and its operation. And my staff said, my gosh, you have got these two huge environmental impact statements that have taken years and Lord knows how much money to compile. Are the reporting requirements equally onerous for Third World nations and, if so, isn't this counterproductive?

We certainly need a balance. You have identified these assessments, and I quote from your statement, "as a daunting challenge." Indeed it is, but it is one that I think we have to pursue. And I want to commend, again, Senator Kasten for his leadership in this area.

One question. I see that there is no request this year for IMF funding. Why is that?

Secretary BRADY. We are in the final discussions with other members of the IMF and the managing director about what the amount of the IMF quota increase should be. We will have that discussion finished in the next months, I hope, so that we will be clear about how much money the IMF actually needs as it goes forward with its quota increase.

Senator D'AMATO. Would that then require a supplemental? Is that your intent?

Mr. DALLARA. Senator, depending on when this negotiation is concluded, a decision would have to be made about the appropriate timing to seek appropriations, and we would not want to make that decision without further consultations with this committee as well as with others in the executive branch.

Senator D'AMATO. Could you tell me about the negotiations and who it involves? I do not mean for you to give us the details, but what is the nature of the dispute?

Secretary BRADY. Well, in fact, we are 2 years late because the United States has been maintaining that we wanted to be sure that the IMF needed the money that the quota increase called for. Our position has been that we wanted to make sure that that was demonstrated, and we now feel that it is.

There has been a feeling by our European friends that the amount of the quota increase, should be 100 percent. And we have been saying that the most that we could see that was necessary—and I think that ought to be the criteria, not what would be nice, but what is necessary—is between 33 and 51 percent.

Senator D'Amato, these things take a long time, and you have to keep talking, but I think the firmness of our position is beginning

to pay dividends. I am hopeful that we can get the matter settled in a month or so.

Senator D'AMATO. Mr. Secretary, one last observation. Notwithstanding the fact that there may be this European Development Bank, and I am certainly for the world community becoming involved in making available capital and funds for emerging democracies to reform their economic systems and meet the needs of their people.

But I think Senator Kasten has a very important point and a salient point in his observations as to the possible duplicative kind of structure that we might be paying for, not only in startup costs but in professionalism and expertise, et cetera, when there is a vehicle, with maybe slight modification and additional capital infusions, that is available.

And I know it might be a somewhat lonesome cry for the United States and I do not know who else would join, but it would seem to me that it may be, in the long run, more beneficial to move in the direction of modifying an existing agency. I am not talking about just the United States and/or its prestige. I am talking about the overall efficiency of the operation, so that we do leverage those dollars into much more meaningful returns. I just have to say——

Secretary BRADY. I think the leverage point that you bring up really argues for the contrary conclusion, Senator D'Amato, because what I think we are going to be forced to do is deal with these things if we do not join. One of the arguments for joining is that by putting money into the European Bank, we leverage our position. We are talking about becoming a member of a $10 billion bank and our money has the same leverage in that position as does our membership in the World Bank.

So I think that actually as we strive to aid these countries that are trying to join the democratic way of life, we are going to be hard-pressed—Congress and the administration—to come up piece-by-piece with aid for Hungary, aid for Poland, aid for Czechoslovakia and wherever. We are seeing how hard that is. Whereas, if we are a member of this bank, that could hopefully be our involvement in the process. So I see the leveraging principle going the other way.

I would like to add two more things. One, the World Bank is going to be active in lending to Eastern Europe. I think that they have budgeted approximately $5 billion for this process over the next 3 years. So that process is already under way.

Last, I would just say that we have a lot of the same reservations you do and Senator Kasten does, but if you think about it long enough you say, now if I decide not to go into this thing, what are the consequences of being left out? I mean, what kind of a position does that present in the world's view about the U.S. interest in this all-consuming march that these countries have begun toward freedom?

Senator D'AMATO. Well, I can understand the last point that you have raised, and certainly with the first point I do not disagree. It is just a matter of how we attain that leverage, whether we use the vehicle which is established. I agree with you, it does not make sense for us to be doing this on a piecemeal basis. We are reacting now with a sense of urgency and to meet a crisis situation, but cer-

tainly day in and day out for the foreseeable future, this is not acceptable.

But you do raise an interesting point, and I think that is the political, broader context view: is the United States going to be losing something by not being part of this European Bank and in going in a more traditional way, which would be the World Bank or some other such vehicle. I understand that, but would hope that it was not just a possible negative perception that we are worried about and that would give license to us moving in a manner that probably is not as advantageous.

And that is something that you are going to have to wrestle with and the administration is going to have to wrestle with.

Secretary BRADY. You are probably better at this than I am, but let us conjure up together what the headlines would read in newspapers in every country of the world and in every province of the emerging nations if we did not join this bank. What does that say to those people?

Senator D'AMATO. But notwithstanding our efforts through other international funds, there is a concern then, that we would be perceived at being less than caring and willing to aid.

Secretary BRADY. I think you are better at that than I am, frankly, but I can just see the newspaper headlines.

Senator D'AMATO. OK. Mr. Secretary, I think you certainly put forth a very compelling argument as to why it is that, even if there is an established institution, it may be something beyond efficiency that compels us to be part of the European Bank.

And I thank the Chairman, I thank the Secretary.

Senator LEAHY. Mr. Secretary, I want to keep to our agreement to get you out of here on time, so we will submit several other questions for the record.

GRAIN SALE

I would just make four very quick observations.

First, we have just announced a grain sale to the Soviet Union which will be subsidized by American tax dollars. I find myself in many ways in agreement with you on the Bank. I would just suggest that to get support up here on the Hill—you may want to pass this on to the White House—do not blast this side of the aisle when we suggest doing the same thing that your side of the aisle is saying is good for freedom.

Second, your 1991 budget request for the multilateral development banks is an increase of more than $140 million over last year because you have requested full payment of our arrears to the World Bank and Asian Development Fund. As Senator Kasten has pointed out, the European Development Bank will add even more to the request. I would suggest that you and Secretary Baker get together and maybe have Secretary Baker tell us which one of his programs we should cut to get that money, because that is what we are going to have to do. I would prefer that you folks find out what to cut and tell me.

Third, in our report last year, we criticized the World Bank for not doing enough to help developing countries control population growth. It is especially important in sub-Saharan Africa. Last year,

World Bank lending for population projects in sub-Saharan Africa was $400,000. Their overall lending everywhere, including sub-Saharan Africa, was $20 billion. Overall, worldwide, they spent about one-two hundred fiftieth of that for population.

The head of the World Bank says population is a priority, says environment is a priority. Some day they are going to have to start showing that they really mean it, or else we are not going to continue to fund it.

Finally, Mr. Secretary, the Senate and House appropriations committees disagreed last year over whether to include the $2.24 billion in callable capital for the World Bank. We simply would address it in the supplemental. During conference I supported the administration's position on that, but I am not sure with some of the things going on, whether that support can continue again this year. I am reassessing it.

I would ask only one question: what will happen if we do not approve the callable capital? Will our voting share drop below the 15 percent necessary for veto?

Mr. BRADY. I believe that is the case, but I will ask Charles Dallara to speak to that point.

Mr. DALLARA. Yes, Mr. Chairman, in fact we would expect that it may drop below that level sometime this summer without the approval of the supplemental request which is now attached, I think, to the request for Panama and Nicaragua.

Senator LEAHY. Thank you very much. Bob, do you have anything?

Senator KASTEN. Mr. Secretary, I want to follow on Senator D'Amato's question. The last time we had an increase in the IMF, it was $5.5 billion in budget authority. My understanding is we are talking now in the neighborhood possibly as much as $8 billion.

Secretary BRADY. I think it might be bigger than that. I think it is slightly larger than that.

Senator KASTEN. There is no way that we can have the budget authority in a bill the size of ours, which is $17 billion or $18 billion. We cannot just come in and pull out $5.5 billion, let alone $8 or $10 billion or more. I have understood you to say that you were not sure that there would be a supplemental and that you were not sure how this would be worked out.

Certainly you are not expecting that we take this from other development banks. We already have arrearages there, and we would not be able to afford it.

Secretary BRADY. I think the problem, Senator Kasten, is we are not sure yet because the negotiations have not finished. We do not know whether it will happen in 2 weeks or 2 months or later than that. We do not know whether it would come as a supplemental or as part of the 1992 budget or what. We understand that it is difficult.

Mr. DALLARA. I might just add if I may, Senator Kasten, that we do fully understand the point that you just made, that it is not reasonable to take that much aid, or whatever number it may turn out to be, out of the budget authority that you currently have in this part of the appropriations.

Senator KASTEN. I just want to get two or three more questions with regard to the European Development Bank on the table here, and we can just do it very, very quickly with brief answers.

One part of the legislation that I will introduce is that the special facility at the World Bank would have a sunset date. These countries in Europe, unlike those in Africa and Latin America, will very quickly, as did Germany after the war, become self-sufficient and full partners in the world community. Therefore, they would not need an indefinite flow of aid or support. Does the concept of the European Development Bank envision a sunset date?

Secretary BRADY. My understanding is that it does not sunset. I think that you know that I am for sunset legislation. The question is when does the Sun set?

Senator KASTEN. But conceptually, you understand what I mean. It would be silly for us to participate in some kind of development bank that was giving significant aid to Germany or to Japan. If we do not have a sunset, we end up subsidizing a facility which is taking money away from countries that might need it more because we have to continue to come up with $80 million a year to this one. Four or 5 years from now, I hope, we are going to see a developed Eastern Europe, though we will still have problems with hunger and poverty in other parts of the world. Are we still going to contribute to this group of developed countries? Would it not make more sense to have a sunset?

Secretary BRADY. Well, Senator Kasten, my answer is I would rely on the good sense of Congress and whatever administration is in power at that particular time. There were times when many European countries and Japan borrowed. They are not eligible to borrow now.

So I would quarrel a little bit with your timeframe with regard to Eastern Europe. I do not think it is going to be 5 years. I think it is going to be longer than that. It may be even longer with regard to the Soviet Union. But again, I think that the problem is that we are talking about additional money when we are talking about the European Bank. The World Bank has what it has. So you should probably be advocating the reallocation of existing World Bank funds.

Senator KASTEN. We anticipate adding money into the World Bank toward this special facility that would be targeted toward Eastern Europe.

Secretary BRADY. Well, is that going to be a bilateral window—I mean a window that the United States is going to resupply and resupply? I think we are going to have a hard time getting other countries in the World Bank to join that kind of a facility. They are going to see it coming out of their own pockets if we do that. It seems to me that if we do it ourselves, it puts us into the problem that we are trying to get out of, which is direct bilateral aid.

Senator KASTEN. We are going back, I think, to the model that was used with regard to Africa. When we looked within the system, people across the world recognized special concerns, and special targets were made toward the African Continent within the context of the World Bank.

Let me ask a couple of other just quick questions for the record The United States and Japan are being asked to contribute the

largest shares of the bank capital while the Europeans would retain control of the lending policies with a 55-percent majority stock. My understanding is that in addition to these countries, the EC actually has a representative as well, and that helps them get their 55-percent control. So individual countries plus the EC, the European Common Market would be members.

Now, has Japan expressed concerns similar to those that I am expressing this morning regarding the bank's policies, and do you think that the Japanese would be willing to withdraw from the bank if the United States withdraws?

Secretary BRADY. Well, starting with your last question, the Japanese have been extraordinarily helpful and consistent in their positions in the sense that they have agreed on most of these issues with the United States. I am not sure if, at the moment, they were faced with the decision to be or not be a member of the bank what they would do. I do not think that is useful for me to guess about that now. It would be very hard, maybe even harder for them, not to be a member than it is for us because of the proximity problems geopolitically.

With regard to the percentage of shares that we will have, I think that these percentages have not been determined. I think Japan may have slightly less than we do. And with regard to our 8.5 percent, I think that is the same as some of the larger European countries. The point that you have made is the correct one, that in the European Community there will be over 50 percent. That is why we are trying to get the guidelines which deal with lending and the amount of money that can be used for infrastructure as opposed to private purposes settled in the charter and by-laws.

Senator KASTEN. Mr. Secretary, thank you. I have a few questions that I will submit for the record, but I thank you.

And I understand that a lot of my concerns echo some that you and Dr. Mulford and others are expressing in a number of different ways.

We have not even talked about the duplications of conferences, of different meetings, of all the things that you and I and the Government have been fighting with regard to these institutions, everything from the salaries to the health clubs to the pension programs.

It just seems to me that we have an opportunity to discuss this carefully and to know exactly what we are getting into and see if we cannot, with the same amount of money, get a little bit better return more quickly. It seems to me it would take a long time to get this mechanism up and running. But you and I will work on this, and we in this committee will keep a keen interest in this bank. And I thank you for your testimony here.

Secretary BRADY. I just want to assure you, Senator Kasten, we have been very tough. We keep coming up to this decision point of what does it look like if the United States is not a member of this organization at this time. We come up to this decision point and it makes us work a little harder to get our point across, and to get the things that we want in the charter and bylaws and still be a member. I know you are trying to get at it a different way, but it is a stark proposition to face to think of us not being a member of the EBRD at this time.

Senator KASTEN. Thank you.
Senator LEAHY. Thank you, Mr. Secretary.
Secretary BRADY. Thank you.

ADDITIONAL COMMITTEE QUESTIONS

Senator LEAHY. There will be some additional questions from various Senators which will submit to you for your response.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

ENVIRONMENT

SENATOR LEAHY: Mr. Secretary, last year in this Committee's report we said:

> "The Committee believes it is essential that each MDB implement a comprehensive system for reviewing the environmental impact of each potential loan. The review process should provide for the full comment of local non-governmental organizations and government officials. The findings and conclusions of that review process must be fully incorporated into the final loan agreement."

First, do you agree with that, and second, is it being done? If it is not being done, what are the obstacles? Is this not the bottom line for giving the environment the attention it deserves where it really counts -- in the loan agreements?

SECRETARY BRADY: Yes. I agree there should be a comprehensive system within the MDBs for the environmental impact assessment of loans that may have a significant effect on the environment. Such assessments should be completed at an early stage of the project cycle. They should also provide for public participation. This public participation is an essential element of the process and there should be ample opportunity for local community groups and others affected by the project to make comments and to have access to the results of the assessments when it is completed.

The obstacles have been an unwillingness on the part of some borrowing countries to take the steps that are necessary to assure that environmental impact assessments are completed in this way. In the past, the management of the MDBs and other member countries have not supported our efforts to promote these reforms. However, that situation is beginning to change. Some environment impact assessments are already being completed but the MDBs clearly need to have a comprehensive system that will provide assurances. The World Bank and the Inter-American Development Bank have already adopted operational directives or policies and we will be working closely with these banks to assure that they are implemented effectively. We will also be encouraging the Asian Development Bank and the African Development Bank to set up similar systems. Environmental conditionality should be an important part of individual loan agreements. It is needed as a standard against performance and as a guide to development of future loans. It is most important, however, in my view that environmental impact assessments be completed at an early stage of the project cycle.

SENATOR LEAHY: Mr. Secretary, we put a lot of

recommendations in last year's bill to get the MDB's to pay attention to global warming. Our aim was to get them to put more money into energy conservation and renewable energy and less into huge dams and power plants that cause too much harm to the environment.

According to the environmental groups, the World Bank still has not got the message. At the very least, the Bank has a very long way to go.

What actual progress have the MDB's made over the past year or two? I do not mean plans and proposals, but actual projects that support renewable energy and energy conservation? Are the environmentalists right that less than 4 percent of World Bank energy lending has gone for these kinds of projects in the past two years? How can we change that?

SECRETARY BRADY: My understanding is that the World Bank is taking steps to put more emphasis on energy efficiency and conservation programs. As a result of our efforts, the IDA 9 agreement that was negotiated last year contains a number of very specific measures in this area that will guide IDA lending over the next several years. These measures include:

- support for energy efficiency and conservation;
- expansion of efforts in end-use efficiencies and renewable energy programs;
- encouragement of least-cost planning in borrowing countries;
- increase of expertise in IDA in this area; and
- integration of Energy Sector Management Assistance Program (ESMAP) into lending operations.

The non-governmental organizations are certainly correct that the Bank has not paid adequate attention to these issues. The number of renewable energy and energy conservation projects that the Bank has financed is still far too low and the performance of the regional development banks has also been unsatisfactory in this regard. That is why we took such a strong stand in the IDA-9 negotiations and in meetings of the Development Committee and at the annual meetings of the World Bank and International Monetary Fund last year. President Bush, himself, emphasized the importance of energy efficiency and conservation in the context of global warming concerns. It will take time, however, before actual projects come forward as a direct result of these efforts.

SENATOR LEAHY: Mr. Secretary, I have heard that the World Bank has proposed a special fund to address global environmental problems. That sounds like a good idea, except I see very little signs that the Bank is capable of managing such a fund in a way that actually does more good than harm.

What is the status of this proposal and what is Treasury's position? What improvements in the Bank's existing environmental policies and performance would you want to see before this fund becomes a reality?

I am told that the Bank has so far refused to include the public and non-governmental organizations in the discussions on this fund. Is that true? Will they be included in time to have a meaningful role?

SECRETARY BRADY: A preliminary meeting of the potential donors to such a facility was held in Paris on March 15-16. There was general agreement on the need for action in this area and the helpful role that the World Bank might play. A report on the outcome of that meeting was given to the World Bank Development Committee on May 8. Treasury has been generally supportive of the concept of such a facility and agrees that the World Bank might be able to play a very useful role. At the same time, we have had concerns about the availability of budgetary resources to fund a U.S. contribution to such a facility and how it might be structured and staffed and affect other important environmental initiatives already underway, including environmental impact assessment, energy efficiency and conservation programs, and programs to protect tropical forests. Our view has been that environmental considerations should be integrated into all aspects of the Bank's activities and not fenced-off in a separate facility.

At the time of the Paris meeting, the World Bank had not made provision for consultations with the public and non-governmental organizations. U.S. representatives at the Paris meeting urged that consultations on the proposal be carried out with non-governmental organizations and with members of the scientific and university community. Such consultations have since taken place and we are hopeful that they will continue because we believe that public participation is particularly important in resolving environmental issues.

PROJECTS THAT DISPLACE PEOPLE

SENATOR LEAHY: Time and again we hear about big World Bank projects that have displaced hundreds of millions of people. Some of these projects have caused mass protests and civil disturbances by local people who are being uprooted. The Narmada and Kedung Ombo dams in India and Indonesia are only two examples. I wonder if any of the people uprooted will ever benefit from those projects.

I know the Bank has a policy that people displaced by its projects must be resettled and compensated for their lost property. Why isn't the policy of caring for people displaced by big dam projects enforced? How can that policy be strengthened? Are these dams still being financed? Can we stop them?

SECRETARY BRADY: The World Bank's policy directives for involuntary resettlement are sound and comprehensive. The problem is in their implementation. Some of the projects which continue to present resettlement problems were begun before the policy came into effect. It has become clear that thorough consultations with affected communities and close monitoring by the Bank are necessary if resettlement is to be implemented smoothly. Prior strengthening of institutional capacity in the borrowing country is also an important factor.

As both the projects you mentioned -- Kedung Ombo in Indonesia and Sardar Sarovar in India -- are still being implemented, the U.S. Executive Director's office is following their progress. In the case of Sardar Sarovar, the U.S. Director and Treasury staff have met extensively with NGOs and Bank staff to learn of the field situation and press for action.

We believe the Bank has learned valuable lessons from its projects involving resettlement. Nevertheless, future projects (involving dams or other infrastructure) with resettlement components will be closely scrutinized for compliance with Bank policy. The U.S. would not hesitate to oppose projects which do not meet the policy guidelines or where the institutional capacity for successful implementation does not exist. More generally, U.S. pressure for increased consultations and cooperation with NGOs should improve the prospects for sound planning and implementation of such projects. We have also strongly encouraged the Bank to examine energy efficiency improvements and other alternatives to large scale energy projects that displace people.

DEFORESTATION

SENATOR LEAHY: In 1985, the Tropical Forestry Action Plan (TFAP) was formed to redirect the programs of the World Bank and other donors to slow the rate of tropical deforestation.

I am told this has not happened -- that the TFAP has been used to promote big logging projects that are laying waste to tropical forests. You seem to suggest as much in your statement. Is the World Bank still doing these things?

I understand that last year President Conable committed the Bank to a three-fold increase in forestry lending. Is the TFAP going to be reformed so it actually does what we wanted and protects these forests?

What justification is there ever for logging the rain forest? What is Treasury's position on this?

SECRETARY BRADY: The TFAP was initiated to review forest sector problems in a comprehensive fashion and coordinate international activities in the sector. Since the completion of sector reviews in a number of countries and the launching of projects, the TFAP has been criticized for an overly narrow focus on timber

production and for excluding the participation of NGOs and local communities.

By and large the MDBs have not sought to finance pure logging projects. World Bank forestry projects, in particular, have entailed policy dialogue leading to reforms in the forestry sector that have potentially far-reaching effects. These projects also include significant institutional strengthening components. However, implementation failure remains a very real concern and Treasury has pressed the Bank to increase its project supervision and to create independent monitoring entities in the field.

There is now a broad consensus that TFAP must entail a broad-based approach if its goals of forest preservation and sustainable logging are to be met. A broad-based approach includes reform of policies in the forest and related sectors, strengthening of forest management institutions, consultation and cooperation with forest dwellers and local communities, and protection of forests for watersheds and biodiversity. Reforms of logging policies are especially important if sustainable use of forest is to become reality. At the same time, provision must be made for the fuelwood requirements of rural people and the broader needs of traditional forest dwellers.

The U.N. Food and Agricultural Organization (FAO), the parent agency of TFAP, has initiated a review, using a panel of development experts. Their report was released in June. The World Resources Institute, a research organization which was involved in the original elaboration of the TFAP process, also conducted a review, particularly to look into NGO criticisms of TFAP. Lastly, a number of NGO critiques, the most comprehensive of which has just been issued by the World Rainforest Movement, have spurred discussion in the implementing agencies, both bilateral and multilateral. The U.S. Government is actively pressing for review and reform of the TFAP process.

Logging has traditionally taken place in tropical rainforests because these forests produce certain varieties of high-grade timber. Timber exports are very important to the economies of a number of countries with rainforests. The TFAP was spurred by concern that some traditional exporting countries were mismanaging their timber resources.

Treasury has adopted guidelines to use in evaluating MDB projects that affect moist tropical forests. According to these guidelines, MDB projects should not support logging activities unless these can be demonstrated to lead to sustainable harvest. Treasury has also focused on a wider range of forest issues in its dialogue with the Banks. These include 1) policy reforms; 2) adequate institutional strengthening prior to implementation of other components such as managed logging; 3) treatment of issues outside of the forestry sector that affect forests (e.g., agricultural

encroachment); and 4) consultation with local NGOs and community groups.

ENSURING ENVIRONMENTALLY SOUND PROJECTS

SENATOR LEAHY: Mr. Secretary, my impression is that with the new capital increase the Bank has a lot of money to lend. Bank staff are rewarded for building up loan portfolios and pipelines, rather an for slowing down a project to ensure it is environmentally sound. I have heard this from Bank employees themselves.

Is this not the opposite situation of what we want? How can the Bank get its staff to put the environment first?

SECRETARY BRADY: Unfortunately, I would have to agree with you that there has been far too much pressure on management and staff to produce new loan proposals and to increase the level of lending each year. This is a tendency that we have argued against, urging, for example, that lending levels be limited in the final quarter of each fiscal year to reduce "bunching" of loans. We have also encouraged more emphasis on the implementation and evaluation aspects of lending. In the case of environmental concerns, I believe that the requirement for environmental impact assessments early in the project cycle will be very important in assuring that such considerations are taken into account.

PHILIPPINES

SENATOR LEAHY: You have said the Philippines is one of the next candidates for the Brady Plan. How much does the Philippines owe the commercial banks? How much is its official debt?

SECRETARY BRADY: Philippine medium-term commercial bank debt subject to the financing package totalled $6.6 billion. The Philippines owes bilateral official creditors $6.7 billion and the international financial institutions $5.6 billion, as of December 31, 1989.

SENATOR LEAHY: In your testimony you say the Philippines debt agreement will only result in a net debt reduction of 10 percent. My impression is that this is more a "new money" agreement. Why only 10 percent debt reduction, and are we not setting the Philippines up for bigger debts down the road?

SECRETARY BRADY: The agreement between the Philippines and its commercial banks places greater emphasis on new money and direct cash buybacks because Philippine conditions are materially different from those for example in Mexico or Costa Rica. The Philippine economy has realized steady growth for a number of years and its debt burden is not as heavy as Mexico's or Costa Rica's. The Philippines also is the beneficiary of

substantial foreign assistance commitments for the period ahead. The impact of debt and debt service reduction would have been small relative to Philippine financing needs because medium-term bank debt only accounts for about 25% of total Philippine indebtedness.

These factors are reflected in the agreement reached between the Philippines and its commercial banks. New lending was necessary to fill projected financing gaps, while direct cash buybacks were an efficient means of enlisting the support of banks prepared to exit the Philippines at a steep discount. The elements of this agreement include the following:

- The Philippines completed a direct buyback of $1.3 billion in early January at a 50% discount. This is equivalent to a 20% reduction in its stock of medium-term commercial bank debt. The buyback was funded by IMF, World Bank, Philippine and official support totaling $667 million (including $95 million from the U.S. Agency for International Development).
- Voluntary new lending from commercial banks amounted to about $700 million.
- Commercial banks have rescheduled the remaining debt and have granted waivers to permit the Philippines to launch additional debt and debt service reduction arrangements.

This agreement offers substantial benefits to the Philippines. It fills the projected financing gaps for 1989-90 while achieving net debt reduction. After taking into account the substantial new lending contemplated, we estimate that the net debt reduction and the net debt service reduction on bank debt will still amount to 10%. Because the net debt reduction is permanent, these benefits will extend well beyond 1990. Further reduction of commercial bank debt is contemplated since the Philippines has committed to reopen its debt/equity swap program and expects additional debt and debt service reduction operations as a result of broad commercial bank waivers. These longer-term benefits should help to stabilize the medium-term economic and investment climate in the Philippines, provided of course that the Philippine government successfully implements needed reforms in its investment policies.

CRITERIA FOR LOANS

SENATOR LEAHY: One of the things I am very concerned about is the criteria that are used for deciding which countries should receive MDB loans, and how much those loans should be.

I know economic performance is a basic criteria, as it should be. But what about efforts a country is making to alleviate poverty? Is that given weight? How is it factored into the equation?

SECRETARY BRADY: Increasing per capita income is an objective of all MDB loans. In addition recent SALs and policy-based lending programs in various borrowing countries have been accompanied by social sector loans to reduce the negative social impacts of adjustment lending on the poorest income groups. Moreover, in the IBRD/IDA Medium-Term Budget Planning Framework (FY 91-93), management is proposing increased lending for education, population, demography, and public health, sectors that directly impact on the poorest for FY 91-93 period. This entails, for example, a tripling of population lending, and almost a 60 percent increase in human resource dollar commitments. Certainly the borrowing countries policies and reform efforts in their social sectors and efforts to alleviate poverty will be taken into account in this increased social sector lending and in the social adjustment lending. During the IDA-9 lending period (July 1, 1990 - June 30, 1993), the quality of a country's poverty alleviation effort, including a country's commitment to poverty alleviation, will be given increased emphasis in allocation of IDA resources.

IDA REPLENISHMENT

SENATOR LEAHY: Mr. Secretary, in your statement you mention that in the 9th replenishment agreement for the International Development Association, the U.S. "achieved its three major policy objectives", including new measures to protect the environment.

I am told, however, that some of the members of the IDA Board of Directors were upset by the parts of the agreement calling for environmental assessments on IDA loans and the release of that information to the public. Is the agreement final, or is it subject to revision by the Board?

I am also told that the policy of giving the public access to the environmental assessments will not apply to World Bank loans. Is that true? So the public in Poland which is eligible for World Bank loans cannot get this information, while the public in Zaire can?

SECRETARY BRADY: The Board of Executive Directors of the Bank approved the IDA-9 Report on January 31, 1990. Some members of the Board expressed concern about certain parts of the report including those related to access to environmental information. The environmental provisions of the IDA-9 agreement, strictly speaking, apply only to the use of IDA-9 resources. We believe those provisions should be applied on a broader basis and have encouraged management to take that approach. At this point, we do not know how the provisions will be applied to resources other than IDA-9. We are hopeful that the requirement for distribution of the environmental impact assessment material will be applied to the other operations of the Bank.

NATURAL RESOURCE PLANS

SENATOR LEAHY: Last year's bill required the Secretary of the Treasury to "incorporate natural resource management initiatives throughout the implementation of the Brady Plan." It also required a report on progress by April 15.

April 15 is not far away. Do you agree that the "sound economic policies" by which a country qualifies for the Brady Plan should include sound environmental policies to manage that country's natural resources? Can you tell us where you are on this? Did Mexico agree to a natural resource plan? What does it require Mexico to do? Venezuela? What about the other candidates for the Brady Plan -- the Philippines, Costa Rica? Are you including environmental officials and representatives of non-governmental environmental organizations in Brady Plan negotiations?

SECRETARY BRADY: We agree that sound environmental policies are important elements of economic reform programs supported by the international community through the MDBs. To enhance the role of environmental concerns in both project and policy-based loans, the Administration has promoted MDB action to: expand their use of environmental impact assessments and public access to them; develop environmental action plans on a broad basis; build up their environmental staffs; and begin considering use of a portion of environmental policy-based and project loans to finance debt-for-nature swaps.

We are not, however, prepared to add an additional self-standing eligibility criteria for multilateral support for debt and debt service reduction negotiated by countries with their commercial banks. Such additional conditionality would likely delay the process of negotiating debt and debt service reduction which is vital to these countries' efforts to resume growth.

I would note that, as part of its environmental programs, the World Bank is working with debtor countries to improve environmental policy and natural resource management. In Mexico, the Bank is preparing a water pollution control project to develop more responsible and efficient national and local institutions and to introduce appropriate development policies. A project to help develop a comprehensive program for the control of air pollution in Mexico City is also under preparation. In the Philippines, the World Bank is preparing an "Environment and Natural Resource Management" project designed to develop an institutional and incentive structure leading to use of sustainable resource management techniques and to upgrade support services for extension and regulation in forestry and upland agriculture. In Venezuela, the Bank is developing an environmental protection loan designed to assist the government in the definition and implementation of environmental policy.

We are not in a position to include either particular members of a debtor country government or

representatives of environmental NGOs in the negotiation of debt and debt service reduction agreements with commercial banks. These negotiations take place between each debtor country and its commercial banks; there is no U. S. government representative present. Seeking to dictate the participants in these negotiations would be well beyond the scope of the U.S. government role in promoting debt and debt service reduction.

SENATOR LEAHY: Our bill also required our Executive Directors to the MDBs to support lending to reduce or restructure debt in return for the sustainable use of natural resources. Our aim was to give these countries an incentive to start managing their natural resources better so they will not continue to waste them. What has been done?

We also urged the World Bank to implement its own recommendations on debt-for-nature swaps. Has anything actually been signed? What is the problem here -- are there not many opportunities for these swaps?

SECRETARY BRADY: The Treasury Department is promoting the use of a portion of MDB environmental sectoral or project loans to finance debt-for-nature swaps. The promise of such transactions which can help countries ease their debt burdens, even if only by a small amount, should offer an incentive to debtor countries to work with the MDBs to begin improving the management of their natural resources.

In its April 1988 Debt-for-Nature Swap report, Treasury urged the World Bank to take specific steps to facilitate these swaps. The Bank has recently prepared a report on its potential role vis-a-vis such swaps which parallels many of the suggestions in Treasury's report.

In addition, in recent months progress has been made in bringing together interested parties for a potential debt-for-nature swap in Paraguay to preserve a section of tropical forest. The U.S. Executive Director has been very active in encouraging this effort, and we hope that Bank involvement will help bring this endeavor to fruition.

BRAZIL

SENATOR LEAHY: Brazil's new President, Fernando Collor de Mello, has said he would welcome international cooperation on Brazilian environmental issues. That is a big change from his predecessor.

I know you are considering Brazil as a candidate for the Brady Plan. How can you combine debt relief for Brazil with actions by that country to stop the slash and burning of the rain forest?

SECRETARY BRADY: Brazil's Secretary of National Environment, Jose Lutzenberger, is on record in support of debt-for-nature swaps. This is conceivably an option that might be offered in negotiations with commercial banks on debt and debt service reduction.

POPULATION

SENATOR LEAHY: In our report last year we criticized the World Bank for not doing enough to help developing countries control population growth. This is one of the most serious problems we face, especially in Africa. Yet total Bank lending for population projects in sub-Saharan Africa last year was just $400,000.

World Bank President Conable says population is a priority. Yet we see this kind of population lending by the Bank. What specific actions are we taking to press the Bank to make population lending a genuine priority?

SECRETARY BRADY: Population projects are important and we have supported them at the Board in the World Bank. There is some success to report. Specifically, a reduction in the total rate in Kenya has been confirmed (from 7.7 fertility births per woman to 6.7) as a result of increased use of contraceptives by women. As a result of such high demand for contraceptives, the Bank recently approved another population project for Kenya as a follow-up to the population project of 1988.

In addition, it has been shown that women's demand for smaller family size is a function of income, education, and urbanization. Thus the loans to support women's education, agriculture and income-generating projects, as well as general projects to support industrialization and urbanization, will all have an impact on family size and population control in developing countries as well. The U.S. has supported such lending to developing countries, which will have an important impact on the demand for family planning, as well as specific population projects.

WORLD BANK RETURN TO LONG-TERM LENDING

SENATOR LEAHY: Mr. Secretary, a recent Washington Post article stated:

> "The World Bank has decided to back away from its recent effort to make fast loan payouts to Third World countries in economic difficulties. It will return instead to its original mandate concentrating on long-term lending for large projects, such as dams and roads."

What is your reaction? What does this mean for lending to support economic reforms? What will it mean for the environment -- why do we want more big dams that destroy more land and displace more people?

SECRETARY BRADY: Contrary to news articles, the Bank is not moving away from structural adjustment lending. Policy-based loans will be forthcoming if and when justified for such countries as Brazil, Poland, and have also become very extensive. It would be quite helpful if those requirements could be rationalized so as to reduce the burden on staff without compromising the flow of information to the Congress and its committees.

We have drawn extensively on the technical expertise of AID, EPA, CEQ and other governmental departments and agencies. For example, we worked closely with CEQ and EPA in reviewing the operational directives that were adopted by the World Bank and the Inter-American Development Bank. We do not have environmental experts on our own staff but we do have individuals who have become very familiar with these issues in the Multilateral Development Banks. Our budgetary constraints are very tight and we may have to seek additional support from other agencies for our efforts.

QUESTIONS SUBMITTED BY SENATOR DANIEL K. INOUYE

SENATOR INOUYE: Mr. Secretary, a strong and growing economy is a necessary pre-condition for the consolidation of incipient democracies in Latin America. What progress have Brazil and Argentina made in addressing their debt problems?

SECRETARY BRADY: Among the major debtor nations, Brazil and Argentina are the largest countries that have yet to make significant progress under the strengthened debt strategy. This lack of progress does not reflect adversely on the debt strategy, but instead stems from protracted delays by both countries in implementing appropriate economic adjustment policies.

The IMF will need to play a crucial central role in providing a framework for economic adjustment in both these countries. Resources from the World Bank and the Inter-American Development Bank will also help promote structural and sectoral adjustment. Argentina and Brazil remain candidates for the strengthened debt strategy, once they have established credible domestic economic policies with the help of an IMF-supported adjustment program.

The government of Argentina has been preoccupied for the last eight months with stabilizing the nation's economy, a process that remains elusive. While the government has held preliminary discussions with its commercial bank creditors, it cannot focus on serious negotiations as long as the domestic situation remains unstable. Negotiations with the commercial banks, once they begin, will also be complicated by the existence of some $6 billion in arrears to banks since April 1988. Progress in negotiations with commercial banks will remain elusive until Argentina can implement far-reaching economic reforms.

Since Brazil fell out of compliance with its IMF standby arrangement in late 1988, its economy and its relations with the international financial community have deteriorated. In June 1990, inflation reached 9.6% and is likely to escalate to 12-15% in July and the 1989 budget deficit stood at about 7% of GDP. Brazil's inability to revive its standby led to the withholding of a $600 million new money tranche from creditor banks and

have also become very extensive. It would be quite helpful if those requirements could be rationalized so as to reduce the burden on staff without compromising the flow of information to the Congress and its committees.

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Since falling out of compliance with its IMF standby arrangement in late 1988, Brazil's economy and its relations with the international financial community have deteriorated. In February 1990, inflation reached a monthly record of 73% and the 1989 budget deficit stood at about 7% of GDP. Brazil's inability to revive its standby led to the withholding of a $600 million new to a halt in policy-based lending from the World Bank. Most bilateral credits have also been frozen. The

Brazilian government imposed a de facto moratorium on interest payments to creditor banks last September to conserve liquid reserves prior to the Presidential election. Interest arrears to creditor banks now exceed $6 billion.

In March, the President of Brazil launched a new program for economic reform, and we continue to monitor its implementation. Any comprehensive financing package would need to address as a matter of priority Brazil's interest arrears. In our view, Brazil could benefit from a medium-term financing package, including a wide-ranging menu of options for debt and debt-service reduction. The first priority, however, is the successful implementation of Brazil's economic program, including agreement with IMF.

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

SENATOR INOUYE: Mr. Secretary, the United States' foreign aid budget has not grown appreciably yet the demands on it are increasing. Given the demands on this budget, why should the United States join the EBRD where it will have limited powers and where the World Bank has both the expertise and funds available to do these tasks? What demands are you prepared to make in the negotiations over the EBRD to satisfy those critics who believe that the Bank would give the Soviet Union the ability to draw on a large portion of the EBRD's capital?

SECRETARY BRADY: U.S. participation in the EBRD is important for a number of reasons. A critical reason is that the EBRD will have a special focus -- largely at U.S. insistence -- on promoting the private sector in Eastern Europe. The EBRD's charter requires that at least 60 percent of its annual lending must be in the private sector. There is no similar provision in the World Bank, or any of the other regional MDBs. Also, much of Eastern Europe is suffering from severe environmental problems which directly impact public health. The EBRD is the only MDB which has environmental provisions in its charter. The United States, therefore, expects that the EBRD will take the lead on this vital matter.

U.S. leadership in the EBRD is seen by both Western and Eastern Europe as an important part of our continuing commitment to Europe. Failure by the United States to join the EBRD would send the wrong signal to Moscow and elsewhere. Regarding Soviet borrowing from the EBRD, it will be strictly limited to the Soviet Union's own paid-in capital for the first three years of EBRD operations. This means the EBRD will not be a significant source of funding for the Soviet Union in the near term.

The United States naturally expects the EBRD and the World Bank Group to work very closely together on a wide variety of issues. Accordingly, we do not anticipate significant unnecessary duplication of effort between the two institutions. The U.S. will have its own EBRD Board seat -- and we will be the largest single

shareholder -- so we expect to be quite effective on the MDB coordination issue.

DRUG TRAFFICKING

SENATOR INOUYE: Mr. Secretary, while I realize the need to protect confidential sources of information in money laundering investigations, it is also important that nothing be done to impede the successful prosecution of the region's notorious drug traffickers. Can you tell me if Panama is planning to modify its bank secrecy laws to facilitate the exchange of information between our two nations?

MR. SECRETARY: As explained in more detail in a report on this topic that I am providing for the record -- Actions by the Government of Panama with Respect to Modification of Laws and Agreements with the United States with Respect to Narcotics Money Laundering ("the State Department Report") -- the Panamanians may not need to modify their "bank secrecy" laws to combat the use of Panamanian banks by narcotics money launderers. Current Panamanian law provides for law enforcement officials to obtain information about possible criminal activities (including money laundering) while protecting customer confidentiality, and permits their Attorney General to share information with foreign governments in narcotics and narcotics-related cases, including narcotics money laundering cases. In addition, at the request of the Panamanian government, we arranged in substantive discussions for the establishment of formal mechanisms for obtaining evidence needed in criminal investigations and prosecutions.

SENATOR INOUYE: Mr. Robson's testimony on Tuesday indicated that Panama signed an agreement with the United States in early January to take measures to combat money laundering. What specific measures is Panama taking to help us combat money laundering. What specific measures is Panama taking to help us combat money laundering?

MR. SECRETARY: The Endara government has taken a number of concrete steps to help combat money laundering. These steps are set forth in more detail in the State Department Report.

QUESTIONS SUBMITTED BY SENATOR ROBERT KASTEN

DEBT FOR NATURE BUILT INTO BRADY PLAN

SENATOR KASTEN: While we were writing Public Law 101-167, the Department was reluctant to build "debt for nature" directly into the Brady Plan. Nonetheless, we came to an accommodation, and worked out compromise language. Rather than direct, the law requires that you "seek to incorporate" natural resource management into the Brady Plan.

In the spirit of that compromise, can you describe the progress that has been made, and what specific initiatives have been taken to date to build natural resource management into any of the debt restructuring programs initiated as part of the Brady Plan? Have you met, for example, with EPA Administrator Reilly to seek opportunities to implement these requirements?

SECRETARY BRADY: The Treasury Department uses its role in the MDBs as the primary tool for influencing developing countries' environmental policies and natural resource management. We have devoted intense efforts to increasing the MDBs' focus on the environment, both as an important factor to be considered in general lending decisions and as an area in need of greater attention in itself. Specifically, we have actively pressed the MDBs to: expand their use of environmental impact assessments and public access to them; develop environmental action plans on a broad basis; build up their environmental staffs; and set up sector lending programs for the environment.

There is more to be done. Environmental issues should be incorporated more fully into the policy dialogue the MDBs pursue with developing countries. Environmental action plans and impact assessments are critical tools for this process, and the MDBs must be further urged to develop them on a broader basis.

Because we believe that debt-for-nature swap transactions can help leverage funds to support environmental projects and sustainable resource management in developing countries, we are seeking to expand the role of the MDBs in facilitating these swaps. For instance, we are encouraging the use of a portion of environmental sectoral or project loans to finance debt-for-nature swaps. The prospect of debt reduction through such transactions, even if limited in nature, should offer an incentive to debtor countries to work with the MDBs in this area.

We feel that strengthening the MDBs' focus on the environment through these measures is the way to establish a productive link between a country's willingness to pursue environmentally sustainable development and the international community's support for efforts to reduce debt burdens. Any stricter linkage could delay or undermine international efforts to provide needed financial relief in support of economic reforms aimed at establishing strong economic growth. Our aim is to ensure, both by supporting economic reform programs and urging the broader incorporation of environmental concerns into these programs, that such growth is both economically and environmentally sustainable. While we believe that a debt-for-nature swap option (either through a commercial bank donation of debt or a cash buyback linked to environmental commitments) could be a feasible option within commercial bank financing packages, we have never intervened in debtor/commercial bank negotiations to insist on specific options, nor do

we believe it would be appropriate to do so.

EPA Administrator Reilly and I have met on this issue, and we, as well as our staffs, are working together to advance these goals.

IMF QUOTA INCREASE

SENATOR KASTEN: I understand that negotiations on the IMF quota increase have been stalled and may not begin again until sometime in June.

Please inform the Committee about the major outstanding issues, including what you anticipate will be the size of the replenishment and what will be the U.S. share of that replenishment?

SECRETARY BRADY: Negotiations on an IMF quota increase have been proceeding in the IMF Executive Board. Substantial progress has been made and we expect an agreement on a quota increase before the June 30, 1990, deadline. Our objective in these negotiations has been to ensure that 1) Fund resources remain sufficiently strong to meet anticipated challenges, consistent with the IMF's monetary character, in the coming years, including the restructuring of Eastern European economies and the international debt strategy, and that 2) Fund resources are used wisely. Regarding the latter concern, the United States has linked implementation of any increase in IMF quota shares to an agreement on a strengthened arrears strategy.

The United States has stated that it could accept a quota increase of up to 50 percent. We believe a 50 percent increase would allow the Fund to fulfill its systematic responsibilities. There appears to be an emerging consensus in favor of the U.S. position. A 50 percent increase would raise the size of the Fund from around $120 billion to $180 billion. The, a 50 percent quota increase would raise the U.S. quota share $11.5 billion (from $23 billion to $34.5 billion).

Discussion concerning the distribution of the quota increase among other Fund members has centered on Japan's effort to raise its ranking in the IMF from the fifth to the second position and the efforts by the United Kingdom and France to adjust their rankings. The United States and the major industrial countries have unanimously supported Japan's bid for the second position. This proposed shift in ranking reflects Japan's growing role in the world economy and its willingness to assume the responsibilities commensurate with that role. It has, for example, committed to provide $10 billion to support the international debt strategy and has been a primary contributor to the ESAF and the IMF's borrowing arrangements. The United Kingdom, which presently holds the second position, and France, which presently holds the forth position, have yet to agree on their respective final rankings.

Another issue under examination is members' access to IMF resources following the quota increase. Negotiations have focused on developing arrangements to maintain on average members' current nominal access to Fund resources. Such arrangements would represent a phasing down of the policy of enlarged access under which borrowings from key IMF creditors have facilitated financing arrangements for certain Fund members experiencing large payments imbalances.

INTER-AMERICAN DEVELOPMENT BANK REQUEST

SENATOR KASTEN: Mr. Secretary, your FY91 request for the Inter-American Development Bank includes funding pursuant to the replenishment concluded last year, representing the first new money sought for this institution in some time. The Administration concluded the negotiations and asked for these funds based on your satisfaction with respect to the negotiation, a number of expected personnel changes and ways of doing business in that institution. Notwithstanding significant progress, we continue to hear of problems, and that much remains to be done. What is your view of the current status of the reforms and personnel matters at that institution?

SECRETARY BRADY: We had expected that the reorganization of the IDB would have proceeded faster than it has and that the Bank would be further along in implementing its new loan preparation process than it is. Although we had hoped for more rapid progress in implementing changes, we are satisfied with the direction of the changes and the progress that has been made to date.

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

SENATOR KASTEN: What is the estimated number of people to be employed by this new institution?

SECRETARY BRADY: It will not be possible to even give an estimated answer until later this summer when the EBRD's management structure begins to take shape. There is not an organization chart at this time.

SENATOR KASTEN: What are the salary levels of the top people in this institution going to be -- can we expect salaries of $150,000 and above as in other institutions?

SECRETARY BRADY: I expect that EBRD salaries will be comparable to those of the other MDBs.

SENATOR KASTEN: Is it anticipated that we will have to participate in the purchase or building of some new headquarters for this institution?

SECRETARY BRADY: I do not anticipate that establishment of the EBRD will involve the purchase or building of headquarters to house the institution.

SENATOR KASTEN: What percentage of the top 50 jobs in this Bank would be filled by Americans?

SECRETARY BRADY: The issue of the nationality of top job holders is very unclear at this time.

SENATOR KASTEN: From what country would the president of this institution emerge?

SECRETARY BRADY: The first President will be Mr. Attali from France.

SENATOR KASTEN: Are Lithuania, Estonia, and Latvia anticipated to be sovereign and independent members of this institution?

SECRETARY BRADY: Not at this time.

QUESTIONS SUBMITTED BY SENATOR DON NICKLES

MDB PROCUREMENT

SENATOR NICKLES: In the FY90 Foreign Operations Appropriations Bill, a provision was included requiring, that prior to obligation of funds provided to the Inter-American Development Bank, the Secretary of the Treasury to certify that the IDB has adopted procedures to ensure that its loan recipients do not discriminate against U.S. companies in the procurement of goods. What changes in IDB procurement practices and policies have been made in recent months or are anticipated which would justify certification of non-discrimination against U.S. companies?

SECRETARY BRADY: Public Law 101-167 requires certification that the Board of Executive Directors of the IDB has adopted policies to ensure that all recipients of assistance must agree in writing that in general any procurement of goods or services utilizing Bank funds shall be conducted in a manner that does not discriminate on the basis of nationality against any member country, firm or person interested in providing such goods or services. IDB loan contracts require that the procedures and specific requirements for bidding shall permit the unrestricted participation of firms from the Bank's member countries when goods or services are financed in whole or in part with the resources from an IDB loan. The Inter-American Development Bank's loan contracts, therefore, are in compliance with Public Law 101-167.

The USG is committed to assure that U.S. companies are treated fairly in IDB procurement practices, and that those practices are open and transparent. Those

practices were questioned in the last session of Congress. Your amendment, and a GAO study of IDB procurement practices, have led my staff to conduct a detailed review of IDB procurement. They examined the rules themselves and contract provisions implementing them, and reviewed all procurement cases brought to the attention to the USED/IDB and Treasury over the last ten years. That study has been very time-consuming. I anticipate making the certification within the next several weeks.

SENATOR NICKLES: Do you believe that adequate procedures exist within the IDB's procurement system to address problems which U.S. companies identify in particular bid packages which they believe unfairly discriminate against their offers? Please describe the remedies available to U.S. companies which desire to bid on IDB funded procurements, but which believe that the bid specifications unfairly discriminate against their offers.

SECRETARY BRADY: The companies of all member countries of the IDB may seek clarification or raise questions about procurement packages financed in whole or in part by the IDB. If a U.S. company believes that there are problems with a particular bid package, the company should immediately communicate in writing with the executing agency, with copies to the IDB field office and the USED's office. Once the executing agency has received the communication, the bidding process is stopped. It is the responsibility of the IDB field office to investigate the complaint and determine if it is valid. Depending on the results of the investigation, at minimum, the field office could instruct the executing agency to make minor changes in the bid package or it could go as far as to declare the bid null and void. For example, recently, a U.S. firm identified restrictive specifications in a tender for IDB financed procurement. U.S. manufacturers could not meet the narrowly-drawn European specifications. The U.S. company raised the issue and the specifications were replaced with universal specifications. The U.S. company was subsequently awarded the contract.

SENATOR NICKLES: Public Law 100-418, The Omnibus Trade and Competitiveness Act of 1988, directed the Secretary of Commerce to appoint a procurement officer to serve on the staff of each of the U.S. executive directors of the multilateral development banks. The Act also directed the Secretary of the Treasury to appoint an officer of multilateral development bank procurement. Please describe the extent to which these directives have been carried out.

SECRETARY BRADY: The International Trade Administration of the Department of Commerce, after delays due to budgetary constraints, is moving forward with the appointment of procurement officers to serve

with each of the USEDs. Officers have been appointed for the procurement positions at the USED's offices at the World Bank, African Development Bank, and Asian Development Bank. The position at the Inter-American Development Bank has been advertised and an appointment's panel is currently in the process of evaluating candidates. A procurement officer for MDB procurement was appointed by the Department of the Treasury in March 1989.

SENATOR NICKLES: What role do you believe the U.S. government should play in assisting U.S. companies to identify contracting opportunities financed by MDB lending?

SECRETARY BRADY: Private sector initiative is the key for U.S. companies to identify contracting opportunities to expand U.S exports through the MDBs. Aggressive pursuit by U.S. firms of business opportunities through discussions with ministries and executing agencies in borrowing countries and through follow-up inquiries with project loan/task managers in operating departments within the multilateral development banks is the most effective way to identify potential business.

The USG, however, can heighten awareness in the U.S. business community of the approximately $30 billion annual market in MDB procurement. The USG can assist the private sector's marketing efforts by providing guidance to U.S. firms who are newcomers to MDB projects about each MDB's particular procurement rules and procedures. It can alert U.S. firms to the MDB project early warning information which is channeled to U.S. companies through the Office of International Major Projects (OIMP) at the Department of Commerce, the Commerce Department's District Offices, and through appropriate trade associations. The USEDs and OIMP and Treasury staff have publicized MDB procurement opportunities at trade association gatherings and at numerous trade conferences. A one-day seminar on World Bank and IDB procurement opportunities for U.S. business related to the environment is planned for mid-July. The recent visit of the African Business Roundtable to the United States incorporated seminars for U.S. firms on procurement opportunities at the African Development Bank. Planning is underway for intensive workshops for U.S. firms on how to improve bid responses to Asian Development Bank tenders. The Trade and Development Program's trust funds at the World Bank and at the African Development Bank assist U.S. firms to get involved in the early phases of the design of MDB projects. And finally, to improve the information that is available about MDB projects, Treasury staff and the USEDs have been exploring ways to facilitate more cooperation between the USEDs' offices, OIMP, the Foreign and Commercial Service officers, the State Department's Commercial officers, the Trade and Development Program, and the U.S. Export-Import Bank.

SENATOR NICKLES: Do you believe that the U.S. government should develop a data bank to provide information to the U.S. business community listing such contracting opportunities?

SECRETARY BRADY: There has been discussion about the advisability of establishing a government data base which would contain all major project and/or MDB procurement opportunities. Such a data base has generally been considered too costly to create and update. The data base would also compete with the private sector. Recently, there have been exploratory discussions about a much more narrowly focussed data base, modeled on that used by the Australians, to track consulting opportunities. We are in the process of gathering further information about that data base system so that a decision can be made about whether it may be appropriate for the U.S. to adopt.

SENATOR NICKLES: I understand that some governments, such as the Japanese government, receive information on prospective procurements from the staffs of the multilateral development banks several months in advance of advertising for bids for those procurements. Could you describe how this advance knowledge benefits foreign competitors? How do you believe the U.S. government should respond to these practices?

SECRETARY BRADY: Advance information on MDB projects is available to firms of all MDB member countries. For example, Development Business publishes the monthly or quarterly operational summaries of the World Bank, the Asian Development Bank and the Inter-American Development Bank. In addition, through the offices of the U.S. Executive Directors' and the Office of International Major Projects (OIMP) in the Department of Commerce, the monthly operational summaries are available to U.S. firms. In addition, the U.S. Executive Directors' offices alert U.S. businesses of potential bid opportunities through early warning cables about Asian Development Bank projects, through Project Alert Profiles about Inter-American Development Bank projects, and through the recently developed system of Project Briefs at the African Development Bank. The offices of the U.S. Executive Directors assist U.S. firms to identify and to take advantage of potential bidding opportunities on upcoming MDB projects. I would encourage U.S. firms to be more aggressive in seeking out and using all of this advance information in bidding on MDB projects.

SENATOR NICKELS: February 27, 1990 Washington Post story described Brazil's failed attempt to develop an alternative fuels program. This program, which apparently was encouraged by and supported with World Bank loans, "entirely wasted" an $18 billion investment. Please provide for the record a list of all MDB loans

which supported Brazil's attempt to develop ethanol as an alternative fuel.

In addition, could you tell the Committee whether the U.S. voted for these loans, and if so, could you tell us on what basis was U.S. support given?

SECRETARY BRADY: The World Bank group has funded the following projects in support of Brazil's alcohol production:

BRAZIL-PRO ALCOHOL PROGRAM

MDB	PROJECT	DATE APPROVED	AMOUNT ($ Millions)
IBRD	Alcohol & Biomass Energy Dev.	5/12/81	250
IFC	Destilaria Cianorte S.A.	5/22/80	.250

(In June 1986, IFC sold its shares in Cianorte for $189,400 equivalent.)

There were no other MDB loans for this program. The U.S. Executive supported both of these proposals with the following critical comments.

In the Bank project the USED supported the project based upon the Brazilian government assertions that it would phase out interest rate subsidies and credit subsidies to producers of alcohol in the future. In addition he raised the "important questions of land use and the trade-off between food and energy production; small farmers' rights to land and opportunities to participate in the alcohol development program; as well as the program's impact on the environment, which will merit close attention throughout the projects implementation."

The USED mentioned that the IFC project was "risky at best, with only a 13 percent rate of return." However, he supported it because the IFC participation was "quite limited, and the proposed project, if successful, (would) be of tremendous economic benefit to the country."

U.S. VOTE ON MDB LOANS

SENATOR NICKELS: Could you describe the process by which the U.S. government decides how to vote on proposed MDB loans? Does the U.S. government perform any independent economic analysis to determine whether a project is justified?

SECRETARY BRADY: Congress has charged the Secretary of the Treasury with the primary responsibility for U.S. government relations with the banks. In this capacity, he is responsible for the necessary oversight of the MDBs' loans.

Other agencies, however, also have specific interests in the banks' loans and can provide technical advice on various proposals under consideration by the banks that would not otherwise be available in Treasury. These activities are coordinated by the Working Group on Multilateral Assistance (WGMA). WGMA, made up of representatives from 11 government agencies or departments and chaired by the Treasury Department, meets weekly to review each MDB loan, and makes a recommendation to support or oppose to Senior Treasury officials.

Rarely, if ever, does the U.S. try to duplicate the Banks' work. Instead, each MDB loan is reviewed by WGMA, using established criteria and minimum standards which it has adopted, e.g., positive sub-loan interest rates. Occasionally, the review may involve such things as the recalculation of an economic rate of return, or use of alternative commodity price projections to determine if a project's output would cause injury to U.S. producers, and Treasury independently assesses the adequacy of the conditionality contained in the policy-based loans presented for Board approval.

SENATOR NICKELS: Many MDB loans are developed over the course of 12 to 24 months. However, I understand that the U.S. government decisional process on whether to vote for a loan does not begin until a couple of weeks prior to formal consideration by the bank's executive directors. Do you believe that it would improve our loan review process if the U.S. government began its review earlier in the process?

SECRETARY BRADY: The U.S. government does in fact begin its review of MDB loans much earlier than a couple of weeks prior to Board consideration. Specifically, it begins to review MDB loans at the time they are listed in the Monthly Operational Summary's (MOS) or as early as 18 to 24 months prior to Board consideration. If any loans are identified at that initial listing as problems, a letter is sent to the appropriate U.S. Director requesting additional information, clarification and/or efforts to make appropriate changes in the proposal.

Another review of the loans occurs at about twelve months prior to Board consideration. Then AID sends a cable to the mission in the borrowing country asking for views and the identification of any problems. Again, at the time the MDB issues its Intent to Negotiate announcement (1½ months prior to Board consideration), Treasury or USADB/USAFDB sends another cable to the State/AID mission in the borrower requesting its views and asking about any known problems with the proposal. These cables provide important material for evaluating the MDB loan documents which are issued and distributed to Treasury and other U.S. government agencies about 10-13 days prior to Board consideration.

Additionally, in order to enable WGMA to identify specific problems earlier, Treasury is now in the process of experimenting with a new procedure which would ask questions of each loan by sector, which would be used to identify problems. These would be presented to the Banks' staff for comment, at the time the Banks send out the Intents to Negotiate (about 1½ months prior to Board consideration). Finally, it is important to keep in mind that until a loan is finished, i.e., the loan document is issued, the proposal is a draft and thereby subject to modifications, even at the last minute. Therefore, it is not possible to eliminate all conceivable problems ahead of Board consideration.

SENATOR NICKELS: In considering whether to support or oppose a loan by one of the MDBs, does the U.S. government receive any advice from the private business sector?

SECRETARY BRADY: Officially, WGMA does not receive any direct advice from the private business sector on whether to support or oppose a loan.

However, there are several mechanisms available whereby Treasury does solicit private views and exchange information. The most important vehicle is the Informal Consultative Process under the auspices of the Senate Agriculture Committee. Under this consultative process agriculture producer groups meet with Treasury, State, and AID and Agriculture Department representatives to discuss individual projects or various MDB lending policies. Prior to these meetings the producer groups review each MDB's Monthly Operational Summary of prospective loans in the pipeline and submit to Treasury a list of loans for which they would like additional information. This information is then passed on to them prior to the meeting and further discussed at the meeting.

SENATOR NICKELS: What efforts does the U.S. government make to ensure that countries which receive MDBs allow the private business sector in the recipient countries to participate in deciding how MDB loan proceeds are to be utilized?

SECRETARY BRADY: The U.S. Executive Directors at the MDB Boards have consistently opposed loans that hinder private sector development in the borrowing countries. Within the past six fiscal years FY 1985-1990, 11 percent of our opposing votes were because the loan displaced private capital, contained an inadequate private sector role, or had an excessive focus on the public sector. Ideally, U.S. negative votes should result in the MDBs presenting fewer loans detrimental to the private sector in the future.

Nevertheless, in any case, most MDB projects directly benefit the private sector, i.e., agricultural

projects support small farmers, infrastructure and utilities support the private sector, and most importantly the Banks encourage sound macro-economic and trade policies which increasingly promote greater privatization. Furthermore, the MDBs lend directly to the private sector through the IFC, the Asian Finance and Investment Corporation of the ADB, and the Inter-American Investment Corporation of the IDB, and through sub-loans to the private sector made through development finance corporation (DFCs). In addition, the U.S. government has urged the greater participation of NGOs in consulting and oversight roles in environmental, population and health, and irrigation projects.

SUBCOMMITTEE RECESS

Senator LEAHY. The subcommittee will stand in recess until 2:30 p.m., on Tuesday, April 3.

[Whereupon, at 1 p.m., Thursday, March 22, the subcommittee, was recessed, to reconvene at 2:30 p.m., Tuesday, April 3.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

TUESDAY, APRIL 3, 1990

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:40 p.m., in room SD-192, Dirksen Senate Office Building, Hon. Patrick Leahy (chairman) presiding.

Present: Senators Leahy, Mikulski, and Kasten.

AGENCY FOR INTERNATIONAL DEVELOPMENT

U.S. BILATERAL ASSISTANCE

STATEMENT OF DR. RONALD W. ROSKENS, ADMINISTRATOR

ACCOMPANIED BY:

REGINALD BROWN, ASSISTANT ADMINISTRATOR, BUREAU FOR PROGRAM AND POLICY COORDINATION

BRADSHAW LANGMAID, ACTING ASSISTANT ADMINISTRATOR, BUREAU FOR SCIENCE AND TECHNOLOGY

WALTER BOLLINGER, ACTING ASSISTANT ADMINISTRATOR, BUREAU FOR AFRICA

CAROL ADELMAN, ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA, NEAR EAST AND EUROPE

FRED SCHIECK, ACTING ASSISTANT ADMINISTRATOR, BUREAU FOR LATIN AMERICA AND THE CARIBBEAN

OPENING REMARKS OF SENATOR PATRICK LEAHY

Senator LEAHY. Good afternoon, Dr. Roskens, we are glad to have you here. You have become Agency for International Development Administrator during an exciting time. A serious debate has begun about U.S. foreign aid and what is happening throughout the world. I could not help but think that during my lifetime we have had World War II, the Marshall plan, trillions of dollars invested in NATO. We have been the world leader in development, but many see that as slipping now. So we are going to be anxious to see what you have for proposals. I realize you have been at AID only 8 days. We do not expect you to turn everything around overnight, but I am concerned about what the proposals are. If you look at fiscal year 1991, AID is requesting $300 million more for Eastern Europe, but that is not a great deal, considering what is happening,

or the billions of dollars that other countries are willing to set out just so they can get their foot into Eastern Europe.

Last year on this subcommittee, Senator Kasten and I worked very closely to enact major legislation to get AID to serve as a catalyst for developing countries to conserve energy, stop the destruction of tropical forests and reduce global warming. But there are a number of top officials at your agency who do not seem to understand the urgency of that issue. I sometimes wonder if they are aware that we actually passed legislation.

I would like to tell you about some of my concerns. I want AID to be the best bilateral development agency in the world. This is not going to happen if we just assume we can set the goals, talk about the issues and then assume somebody else will do the work. I cannot count how many times people who deal with your agency have complained to me and my staff about AID's lack of central coordination and focus, excessive bureaucracy, top heavy, inefficient management, wasteful spending and poor accountability for funds. I must say there is not room for inefficiency in the budget for AID.

I mention these as some of my concerns and I hope that I won't have to mention these concerns at next year's hearing. When we are going over the budget for next year with you, I hope we can talk about the tremendous progress made.

I yield to my good friend, the senior Senator from Wisconsin.

REMARKS OF SENATOR ROBERT W. KASTEN

Senator KASTEN. Mr. Chairman, thank you. I simply want to join you in welcoming Dr. Roskens. As the chairman mentioned, you are new in this job, but you have a terrific group of people with whom we have enjoyed working in the past and we look forward to continuing to work with you and your top management group at AID.

Thank you, Mr. Chairman.

Senator LEAHY. Senator Mikulski.

REMARKS OF SENATOR BARBARA MIKULSKI

Senator MIKULSKI. Mr. Chairman, I would just like to extend to Dr. Roskens a warm and cordial welcome. I know he has been on the job about 1 week, but he has really been on the job about 30 years in his life, I should say in another life, before he was called to glory.

We look forward to working with him at AID because this is probably one of the most critical years that the agency has ever faced. We not only must decide how we can manage our resources to meet expanding geographic areas that need our help, but also ongoing populations, particularly women and children, who desperately need our help. We look forward to your testimony.

Senator LEAHY. Thank you, Senator Mikulski. Doctor Roskens, I appreciate the time you spent with me the other day, and I am appreciative of what you told me privately about what you want to accomplish. We have great hopes for you and your agency, which has always had the support of this committee. If we express any criticisms, they are constructive criticisms of friends. There are

always going to be enemies, so listen carefully to what the friends say, because we are the ones who want AID to succeed more than anybody else in the Congress.

I yield to you, sir.

STATEMENT OF DR. ROSKENS

Dr. ROSKENS. Thank you, Mr. Chairman. I appreciate very much the opportunity to appear before this committee today to talk about the future direction of AID, and the budget resources that we are going to need to accomplish the very ambitious goals that we have set for ourselves.

I have provided the committee, as you know, with a statement which summarizes our budget request in some detail. I would like to have that formal statement entered into the record, if I may.

Senator LEAHY. Without objection, it will be entered.

Dr. ROSKENS. Then I would like to talk with you about some of the broader perspectives of AID, perspectives that influence the budget request about which I just spoken.

I consider myself very fortunate, I tell you candidly, to begin my tenure at the helm of America's foreign assistance agency—as you were describing earlier, Senator—in one of the most exciting and challenging times in history, at least as we have lived it. During the past 12 months the most remarkable changes have taken place in Eastern Europe, Panama, Nicaragua, and in Namibia. Dramatic social and political upheavals have literally spanned the globe—most of them wholly unpredictable, even a year or two ago—and have occurred with such rapidity that it almost stuns the senses.

As the new administrator or the new kid on the block, I have asked myself if these cataclysmic changes are about over. I have concluded that without a doubt, these social and political upheavals are far from being over.

Now, is that relevant to our discussion today? I certainly think it is, because further world change is inevitable and AID is in the business of promoting change. That is to say, helping people change from poor to prosperous; from sick to well; from hungry to at least reasonably well fed; from illiterate to literate; and, from excluded to fully participating in all areas of the particular society of which one may be a member.

Now, to manage this change—change that we have planned as well as change that is unforseen—requires a kind of balance. We must balance between sound and very timeless principles to guide our policies on one hand, and management tools to achieve our purposes, such as husbanding resources during the budget year, on the other hand.

I think AID has correctly identified the guiding principles for the U.S. foreign assistance program. We begin with three fundamental goals in our fiscal year 1991 congressional presentation. These three goals, which serve as a framework for AID's programs, are: economic growth that is broad based and sustainable in both economic and environmental terms; human capacity development, that is, the growth of people with particular emphasis on achieving health and education levels sufficient to enable all citizens to contribute to and benefit from economic progress; and third, pluralism,

which includes the promotion of democracy and freedom and competition in the political, economic and social institutions of a nation.

To achieve these goals, AID has submitted a budget that accurately reflects the resources necessary to achieve the development results that the Congress and the administration are both looking for. The budget is tight—only 4-percent growth in operating expenses—despite large new responsibilities, but I am convinced that if we receive this funding, we can fulfill the tasks expected of us.

This leads me to a brief comment on management issues. Although this is my ninth day on the job, I am convinced that we can more effectively and efficiently manage AID resources by increasing productivity and more effectively measuring our progress. Management improvement and accountability will be high priorities for me.

Now, I know my appearance today has been preceded by months of discussion on the issue of flexibility in the conduct of our foreign assistance program. I would just like to say to you that I am convinced, as I know many in the Congress are, that programming flexibility must go hand in hand with accountability and other reforms as well, if we are going to give the American people the best managed program possible.

PREPARED STATEMENT

As we reach the balance between the immutable principles of which I spoke and management improvements and flexibility—which comes about, I might add, by way of a close working relationship between the Congress and AID—we will find that AID will be a more effective tool for peaceful, economic, social and environmental change. We will be better able to respond to the urgent needs of the people of the developing nations and the emerging democracies that we seek to help and strengthen.

Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF RONALD W. ROSKENS

Mr. Chairman, members of the Committee, thank you for this opportunity to introduce myself and provide my perspective on the future directions which should be taken by A.I.D. I also want to comment on A.I.D.'s budget request for the coming fiscal year. The resources we will need to accomplish the ambitious goals we have set for ourselves need to be discussed in some detail.

Secretary Baker has already commented about the astounding changes that have taken place in Eastern Europe -- in Panama and Nicaragua -- in Namibia -- and in some ways in South Africa as well. I need not repeat what you already know.

What I want to suggest is that the era of great change is not over -- it is merely beginning.

The explosion of democracy and the drive toward free market systems which we are witnessing today cannot help but impact other nations. I doubt that governments that avow communist principles will long survive in the face of today's turbulence. Even socialist systems may find it hard to compete with the success that comes to ntions that rely on open markets.

The implications of these changes -- both today's and tomorrow's -- are quite considerable for the U.S. government and the U.S. private sector. As a nation, we are applauding the expansion of democracy and the desire on the part of many of these emerging democracies to pursue principles that foster individual and entrepreneurial initiative. Yet it has become obvious to many of us, including many of you in the Senate, that we are not prepared to support these newly emerging democracies in as timely a manner as we would like. We seem to be playing "catch-up" -- writing supplemental bills that will allow us to provide needed assistance to Panama and Nicaragua and to refugees. Even a newcomer such as myself can see that this method of operating makes us somewhat slow and less than fully effective.

That is why Secretary Baker and I have both asked for greater flexibility in the foreign affairs accounts. Such flexibility has always made sense. History shows that the international scene is never perfectly stable for long. The rapid pace at which the world is changing makes that flexibility more than desirable -- it makes it imperative. I hope to work with you to find a way to put the flexibility we need back into the foreign assistance program, so that we might run with, not behind, the fast moving forces of change in the world.

It is important that we be an effective force for democracy and human progress in the world. It is important because we -- as humanitarians -- have a moral obligation to offer some of our wealth and know-how to those who dream of a brighter future for themselves and their families.

At the same time, we have an obligation to the American taxpayer -- to take advantage of expanding international economic opportunities for the U.S. We already know that developing countries buy more than a third of all U.S. exports. Those developing nations that pursue market-oriented

policies can grow at phenomenal rates -- and countries on a fast growth track are the markets of our future. Flourishing economic relationships translate into greater demand for U.S. goods and services.

This point was made by Peter Drucker in the March 20 edition of the Wall Street Journal when he flatly asserted that:

> "America could do more to solve its trade deficit by helping to bring about economic growth in Latin America -- and reestablishing that hemisphere as a major U.S. customer -- than it could do by removing all of Japan's barriers to U.S. imports."

If we can successfully foster economic and human progress -- multiplying its impact across continents -- the U.S. could look forward to more rapid and beneficial two-way trade with developing countries.

Readying ourselves to meet emerging needs in the developing nations and in emerging democracies is only half the battle. The tremendous reserves of talent and skills the U.S. can bring to bear on the problems developing nations face will be misplaced if we believe that a formula -- or even a common set of programs -- can be applied in every country that needs our help. To my mind, such approaches are naive because they fail to recognize the cultural, economic, political and other differences that distinguish countries and societies. Two countries commanding much attention at present serve as good examples: Panama is reinstating the democratic and free market principles which they know well; Poland, on the other hand, has not relied on a market-based economic system for over fifty years. In Poland, we need to erect -- in Panama, we can simply renovate. The differences here are not simply cultural -- these countries have different needs.

As we organize ourselves to help these nations we will rely heavily on the force and vigor of the private sector -- U.S. businesses, private and voluntary organizations and U.S. universities -- to help us in our pursuits. For our part, we must help to pave the way for the financial and technological investments which only the U.S. private sector can provide. A.I.D. -- with its on-the-ground knowledge of developing countries' potential and problems -- must continue to build policy environments which are conducive to private sector investment. It also needs to be emphasized that this partnership between the public and private sectors will not be entirely productive if one party is constrained.

While we must recognize the differences among nations and the unique nature of their needs, our assistance program should not be simply reactive. History has shown that economic growth and development advance and become permanent when people are free and where market-oriented economic policies make it possible for all citizens to participate in and benefit from economic progress.

In its FY 1991 Congressional Presentation, A.I.D. presented these basic ideas as three fundamental goals that serve as a framework for A.I.D.'s programs -- in all of the countries in which it works. These intertwined goals present a clear and solid beginning for the kind of coherent focus I am encouraging at A.I.D.

The three fundamental goals are:

-- Economic growth that is broad-based and sustainable, in both economic and environmental terms.

  * Let me note here that this is not an abstract goal -- what we are talking about is real increases in people's incomes. Broad-based growth means thousands of start-up businesses and millions of new jobs in these countries.

-- Human capacity development -- the growth of people -- with particular emphasis on achieving health and education levels sufficient to enable all citizens to contribute to and benefit from economic progress, and

-- Pluralism, including the promotion of democracy, freedom and competition in the political, economic and social institutions of a nation.

These broad goals do not tell us exactly what we should do in a country -- nor should they. They do, however, provide appropriate guideposts for developing programs that fit the unique characteristics and needs of countries all around the world.

a) Economic Growth: With respect to broad-based and sustainable economic growth, a consensus is emerging concerning its central importance in the development process. When economies are growing and are open to full participation, individual and family incomes rise and enable people to obtain adequate food, health care, education and shelter. Where there is no significant economic growth, improvements in living standards are tenuous at best.

For growth and its benefits to be broad-based, economies must be open. Private firms must compete in the provision of services and in all aspects of industrial and agricultural production and distribution. Similarly, entrepreneurs, including the smallest entrepreneurs, must have easy access to the market and individuals must have a fair chance to compete for each new job that emerges as the economic growth process takes hold.

By way of illustration, one of A.I.D.'s microenterprise programs in Indonesia provides working capital loans to small entrepreneurs wishing to enter the marketplace. One such loan was extended to a widow in North Bali who wanted to buy scrap cloth from clothing shops. She sews these scraps into children's clothing and sells them at local markets. Her business has so expanded that she is now looking to hire additional workers to help with the marketing of her apparel. As a result of this one small loan, this woman's income has increased enough to provide adequate food for herself and her four children and employment is being provided to family members and outside workers.

The sustainability of development progress depends in large part on a long-term commitment to sound economic policies. All too often we see governments promote inappropriate economic policies that choke off trade, stifle external investment and smother individual initiative. These policies serve to:

- o Hinder the ability of low income groups to better themselves, by keeping prices artificially depressed and maintaining a subsidy for the elite;

- o Encourage the squandering of natural resources, and actually subsidize short-term exploitation for short term gain;

- o Ignore individual property rights of citizens and actively discourage new business and competition through harshly unrealistic licensing procedures.

It is in recognition of the key role of sound economic policies that we are proposing increased attention to performance-based budgeting of our development resources as a means of fostering policy change which is conducive to broadly-based growth.

b) Human Capacity Development: A.I.D. remains committed to assisting developing country governments and private sector service providers to reach the poor with food, essential health and family planning services and to provide them with a basic education. Without these investments in human capital, overall economic growth is neither attainable nor meaningful.

One means of promoting human capacity development is through education and training: A.I.D. funds basic education projects in developing nations around the world and has provided opportunities for more than a quarter of a million people from developing countries to receive academic and technical training in the United States.

Education and training programs can serve a variety of development objectives. As an example, A.I.D. is assisting some recipient countries to trim expensive government payrolls by helping civil servants make the transition from public to private employment. It has been difficult to get new graduates and current civil service employees to explore job opportunities in the private sector. But the Mali Economic Policy Reform Program supported by A.I.D. has helped the Malian Government to undertake a pilot voluntary early retirement program. One mid-level Malian Government civil servant who opted for early departure -- Sara Maiga Sidibe -- received a lump-sum severance payment and entrepreneurial training. Armed with these resources, she opened a successful pharmacy that now employs several people. Her income has probably tripled in the process. Her story may be an exception, but it is encouraging.

We are also at the forefront of worldwide population and natural family planning programs. A.I.D. is by far the world's largest donor to family planning projects and supplies over three-fourths of the contraceptives donated to the developing world.

Health care, particularly for children, has been one of our principle areas of investment and success over the years. A.I.D. helped support pioneering research into Oral Rehydration Therapy, whch is now helping millions of babies and children suffering from the effects of dehydration due to diarrhea.

c) Pluralism: The final ingredient that is integral to the success of any society is political, social and economic

pluralism, based upon a rule of law which provides equal protection for all. A.I.D.'s promotion of pluralism is at the apex of the Agency's goals overall: to promote economic development which fosters human dignity and to promote foreign policies which encourage human freedom. In simple terms, pluralism means the right to choose -- to make all of the daily choices that add up to control of one's own destiny. Pluralism and the policies that promote openness, fairness and opportunity are natural in societies where individual responsibility is valued.

By and large, economic development and political freedom throughout the world have been mutually reinforcing in modern times. Open societies, through legally guaranteed freedoms of speech, press and association, as well as through free elections and a system governed by the rule of law, allow the unrestricted flow of ideas and the expansion of a private sector that is an important counterweight to state power. Open markets, in turn, promote political diversity by providing employment outside of government, allowing individuals to maintain their livelihood independent of the state. Thus, A.I.D. attempts to strengthen institutions which promote the openness and transparency of markets, fair and efficient adjudication of disputes, and the promotion of the rights of individuals to associate for economic purposes, to hold property and to retain the profits from their labor.

A.I.D. has encouraged the development of pluralistic societies by providing support for labor unions, cooperatives, credit unions, and local organizations, as well as special initiatives that promote human rights, strengthen legislative bodies and judicial administrations, and support free and fair elections. These types of development assistance not only enhance the lives of those affected, but simultaneously reinforce democratic principles.

Through all of these initiatives, A.I.D. is fostering the "infrastructure of democracy", not only through its mainstream programs, but also by means of activities which support opportunities to build institutional capacity and increase citizen awareness of and participation in the political process, irrespective of that form of participation.

Before turning from A.I.D.'s broad goals to management issues, I want to point out that our commitment to sound environmental practices permeates everything A.I.D. does. A.I.D. recognized the importance of the environment to sustainable development early on and became active in this area more than a decade ago. Until recently, the careful protection of the environment was not considered to be a problem that required the attention of development agencies. Awareness of the fragility of the world's environment, and how critical protecting the precious natural resources of developing nations is to their future and, indeed, to the future of all the world's inhabitants, has become more widespread.

Protecting the environment and formulating development policies and programs that are environmentally sound have been and are absolute priorities at A.I.D. We are committed to working with developing nations and other donors to hasten the day when environmental degradation is a thing of the past. A.I.D.'s efforts to combat global climate change are reflected

through forest management, reforestation, renewable energy and energy conservation activities. For FY 1990, A.I.D. is committing an additional $15 million from FY 1989 levels to ensure an increasing commitment to global climate change activities.

A.I.D. has also been a leader in the effort to train farmers in alternative methods to the environmentally unsound practices of slash-and-burn cultivation. We have also sought to protect vulnerable rain forests and preserve genetic biological diversity -- while at the same time relieving heavy debt burdens -- by sponsoring debt-for-nature swaps. These types of environmental programs are highly effective in many of the Latin American countries, but cannot easily be replicated in other countries or regions. In Africa, we are racing against the spread of desertification. In Thailand, industrial pollution is the most critical environmental challenge. In Egypt, inadequate sewage disposal poses both ecological and health hazards. Simply put, "all purpose" environmental projects do not exist.

Consistent with our congressional mandate, A.I.D. is an active participant in U.S. efforts to encourage environmental reforms in the Multilateral Development Banks (MDBs). We monitor MDB projects for potential environmental problems, seeking improvements in design early in the project cycle and providing recommendations to U.S. Executive Directors to the MDBs.

In addition to focusing on results, I am committed to the highest management standards for A.I.D. It is essential that A.I.D. employ management approaches that will ensure that the funds appropriated for foreign assistance are used efficiently -- a concern this Committee shares. In tight budgetary times, the need for efficiency is particularly great. To reiterate Secretary Baker's suggestion, closer consultation about mutual objectives could achieve essentially the same outcome as earmarking, but at a lesser cost to overall programming efficiency.

Each year the attention of the public and Congress focuses on new issues, and new expectations are continually being imposed on the foreign assistance program. New directives are imposed without reference to existing requirements or to the cumulative effects of this process. This system hinders the efficient allocation of resources in response to changing needs, and actually inhibits our ability to achieve development goals. While no one questions the appropriate role of Congress in fashioning the budget of the Federal Government, everyone should be aware that our concerns over excessive restrictions are a function of their negative practical consequences.

Specifically, the combination of functional accounts, earmarks and directives complicates A.I.D.'s budget process in several ways depending on the kind of earmark.

One type of complication arises when relatively small accounts are earmarked, like the Education account -- 52% of which was earmarked this past year. The effects of such earmarking -- often invisible to Congress -- are forced cuts in projects without regard for their intrinsic merits, their importance to country programs or their track record. This particular earmark also underscores a message I keep coming

back to: there is no such thing as a universal anecdote for development problems. Concentrating on primary and secondary education programs, as the basic education earmark does, distorts our overall education efforts. Combined with the cut in the account, about $20 million worth of planned education and training activities cannot be funded this year.

Earmarks for specific activities which usually have merit in isolation but for which there is no demand in our programs are likewise problematic. Those which require us to mount new, unanticipated programs -- within a single year -- and especially those in which we have little prior experience -- force us to short-cut the planning process, divert resources from other uses, and often lead to sub-optimal projects. Last year's earmark of $2 million for African elephant preservation is an example of this type of problem.

The increase in such earmarking of DA has compounded the constraints already imposed by the functional accounts, and has made it increasingly difficult to program funds properly to respond to those critical impediments to growth which I cited earlier. It is for this reason that we are submitting a budget request which proposes no functional account divisions.

These examples provide insight into the extraordinary problems caused by earmarking and the restrictiveness of functional accounts. These constraints have made it increasingly difficult in recent years to program funds to respond to the most critical impediments to economic growth in the countries A.I.D. assists.

FY 1991 BUDGET REQUEST

For the FY 1991 bilateral economic assistance programs, A.I.D. requests an appropriation of $6,282,519,000, which compares to $5,774,554,000 appropriated in FY 1990. This request includes funding for Development Assistance (DA), the Economic Support Fund (ESF) and the Special Assistance Initiatives program (SAI). It excludes PL 480 requested by the U.S. Department of Agriculture but administered overseas by A.I.D.

Development Assistance

For Development Assistance, the FY 1991 request totals $2,424,519,000, compared to an FY 1990 appropriation of $2,409,894,000. The development assistance title includes funding for both regionally and centrally managed programs. It includes the Development Fund for Africa (DFA), the Private Sector Revolving Fund, American Schools and Hospitals Abroad, International Disaster Assistance, the Trade Credit Insurance Program, A.I.D. Operating Expenses, the Foreign Service Retirement and Disability Fund, and Housing Guaranty borrowing authority.

1. Development Programs

The Agency's FY 1991 request for general development programs totals $1,231,000,000 compared to an FY 1990 appropriated level of $1,247,684,000. As part of our request, we are proposing to budget $75 million for performance-based

funds in Asia/Near East and Latin America. These funds, modeled after the African Economic Policy Reform Program (AEPRP), would be allocated to countries which are improving their development policies.

2. Development Fund for Africa

The FY 1991 DA request includes $560,500,000 for the DFA, including $50,000,000 for the Southern Africa Development Coordination Conference (SADCC). This year's request does not assume a reserve of $15 million for disaster funding which was part of the $562 million appropriated in FY 1990. Thus, $13 million more is available for development programming in Africa. While proposed assistance will benefit over 40 countries in Africa, more than half of the bilateral DFA request will be targetted to 10 major high-performing countries. Since its establishment by Congress in FY 1988, the DFA has demonstrated its ability to respond to Africa's rapidly evolving development challenges.

3(a). Operating Expenses

A.I.D. Operating Expenses (OE) cover salaries and other support costs of A.I.D. operations in Washington and at overseas missions (except for those employees funded from the Housing Guaranty program and the Office of the Inspector General). A.I.D. must have sufficient operating expense funds to carry out our development mandate while ensuring the effective accountability of tax dollars.

Reports of the Agency's Inspector General and those of the GAO repeatedly find significant shortfalls in the Agency's ability to monitor and adequately account for the resources entrusted to us. Accountability over foreign aid is a concern of the Congress, it is and will be a principal concern of mine, and we know beyond any doubt that it is a concern of the American people. Our ability to closely monitor the delivery of foreign aid in a very vulnerable environment and thus to achieve the maximum impact of limited and austere funding is directly affected by the depth and quality of the hands-on oversight we can provide.

Our overall budget request for FY 1991 calls for a minimal 4 percent increase over last year's appropriated level for A.I.D.-managed programs. The FY 1991 request of $447.8 million reflects the Administration's considered judgment of the minimum amount required to plan and manage the development, security and food assistance programs for which A.I.D. is responsible in a time of great budget stringency.

This request level is actually lower in real terms than the amounts appropriated in FY 1989 and 1990 because of the effects of inflation and of mandatory increases in salary and pension costs. We estimate that the 1991 request will require A.I.D. to reduce direct-hire staff by some 120 Americans below the 1989 employment level, with cuts applied about equally between the field and headquarters.

In order to operate within the funding level requested, it will be necessary to redeploy staff to the highest priority tasks. The Agency is currently studying in detail the relationship between its programs and the support resources, both dollars and workforce, needed to manage them. The results

of this analysis will be useful in determining how to allocate financial and human resources at a time when the Agency is, quite literally, being asked to do more with less.

The hallmark of A.I.D.'s program its its ability to maintain a U.S. direct hire staff overseas to manage and implement our economic assistance programs. However, it is extremely costly to maintain A.I.D. personnel and their families overseas as we must pay, in addition to the usual salaries and benefits, the costs of transporting personnel, their families and household effects; housing and office expenses; education allowances and travel for dependents, provision of security guards and other administrative expenses.

3(b). Inspector General (IG) Operating Expenses

The funds are appropriated separately for costs related to supporting the A.I.D. Inspector General's operations worldwide. A.I.D. is requesting $33,884,000 in FY 1991 for IG Operating Expenses, which compares to $30,453,000 appropriated for FY 1990.

4. International Disaster Assistance

This specialized form of assistance is provided through A.I.D.'s Office of U.S. Foreign Disaster Assistance, which coordinates U.S. government emergency relief work overseas to alleviate the effects of natural and man-made disasters. Technical assistance and training are also provided to improve disaster preparedness, mitigation and early warning systems. A.I.D. is requesting $40,000,000 in FY 1991 for International Disaster Assistance, an increase of $15.1 million over the FY 1990 appropriation of $24,893,000, to help respond to the increasing demands of slow-onset disasters, especially in Africa. This request reflects more closely the actual expenditure for OFDA.

5. American Schools and Hospitals Abroad

ASHA assists private, non-profit, American-sponsored overseas schools and hospitals which serve citizens of other countries and demonstrate American ideas and practices in education and medicine. For FY 1991, A.I.D. is requesting $23,000,000 for the ASHA program compared to an FY 1990 appropriation of $37,850,000.

6. Private Sector Revolving Fund

A.I.D.'s Private Sector Revolving Fund promotes a market-oriented approach to development by: negotiating directly with small and medium-sized private enterprises and institutions; supporting private sector solutions to development problems through direct and guaranteed loans at commercial market rates of interest; and leveraging scarce U.S. foreign aid by attracting private capital on a three- or four-to-one basis. A.I.D. requests $125,000,000 in guaranty authority for FY 1991. This compares to $91,109,000 in FY 1990.

7. Housing Guarantees

The Housing Guarantee program is used to guarantee housing loans from American banks to developing countries for shelter

programs to improve the quality of life of poor families. Funds also are provided for technical assistance, institutional development and training and to encourage private sector solutions to housing problems. For FY 1991, A.I.D. is requesting $100,000,000 in guarantee authority versus the FY 1990 level of $99,570,000.

8. Trade Credit Insurance Program

TCIP is designed to induce U.S. banks to provide short-term trade credit through a guaranty program. For FY 1991, $200,000,000 of guaranty authority is again requested for Central America and another $200,000,000 for a new program in Poland (to be administered by the ExIm Bank).

9. Foreign Service Retirement and Disability Fund

These funds cover costs associated with the inclusion of A.I.D. career foreign service employees in the Fund beginning in FY 1974. For FY 1991, A.I.D. is requesting $40,341,000 for this Fund. The FY 1990 appropriation was $40,147,000.

Economic Support Fund

Economic Support Funds (ESF) address economic, structural and development problems in countries of particular security and political interest to the United States frequently in conjunction with military base or access rights agreements. To the extent feasible, the use of ESF conforms to the basic policy directions underlying development assistance. Often, ESF finances balance of payments and economic stabilization support, frequently in the context of multi-donor structural adjustment programs. Major recipients are Israel, Egypt, Pakistan, Jordan, the Philippines and countries of Central America. A key part of the Andean Narcotics Initiative is also financed from ESF at a level of $175 million in FY 1991. The FY 1991 ESF request is for $3,358,000,000, which includes $14,000,000 in deobligation/reobligation authority. The FY 1990 appropriation was $3,228,988,000, excluding a $50 million rescission of prior-year ESF funds and pending supplemental requests of $500 million for Panama and $300 million for Nicaragua.

Special Assistance Initiatives (SAI)

Special Assistance Initiatives is a new account begun in FY 1990 to provide funds for extraordinary economic assistance to developing countries. Initial funds of $159,312,000 appropriated in FY 1990 are for the initial U.S. contribution to the Philippines Multilateral Assistance Initiative. The FY 1991 request of $500,000,000 includes $200,000,000 proposed for the Philippines and $300,000,000 proposed for Eastern Europe.

This covers the resources requested for our foreign economic assistance programs in FY 1991 of interest to this Subcommittee. I will be happy to respond to your questions.

AID'S OBJECTIVES

Senator LEAHY. Thank you very much. At your confirmation hearing, you said that AID should clarify its mission, enunciate that mission clearly, which is one of the things I mentioned in my earlier statement. Unless AID knows where it is going, and the Congress is in agreement with its direction, then there is bound to be problems. So, I am going to ask you some questions about AID's mission.

There was a study last year which found that AID had 33 different goals. You mentioned ending poverty by supporting the private sector, and I agree that support of the private sector is important, but it is not going to solve everything.

So, let me ask you, if you had to list, very quickly and simply, the most important AID mission, the most important one or the most important two, what would they be? What would be your budget priorities for them?

Dr. ROSKENS. I think the objectives that I see as most important, at least in the overriding sense, are enabling those countries with which we are dealing to achieve economic growth that is broad based and sustainable, and second, to enable human beings, which we call human resources, to enjoy the privileges and benefits of reasonable or decent human life. There are a number of subcategories that have been part of AID's operational mission for a long time that relate to human capacity development, not the least of which is health and matters relating thereto, such as population. In my judgment, these would be the overriding objectives of any newly framed philosophy.

Beyond that, I want to reiterate what I mentioned earlier, because to do these things well, we must be a more effective and responsive agency, which comes back to the management aspect. I do not want to give the impression that I would drop management down to a lesser role, but I did not think that was what you were asking.

AID WASHINGTON STAFFING

Senator LEAHY. There is a problem that we seem to have with the amount of AID staff here in Washington. They are all willing to discuss foreign aid programs, put together papers, have meetings, respond to Congress, respond to each other and have responses on the responses. But, how do you get some of these people out into the field to the places that they are talking about in the foreign aid programs? Is it that their dedication to the country is so great that they do not want to leave the seat of government or, as some others have suggested, that perhaps it is easier to talk about these programs than go to the countries where these programs have to be administered?

Dr. ROSKENS. That is a question, Senator, which I may not be able to answer adequately, but I would certainly like to try. In the short time that I have been associated with the Agency, I have spent a fair amount of time trying to get acquainted with the people there. I have found those who are involved in the management and effecting the objectives of the institution to be very competent people.

At the same time, there is a large number of people with whom I am not personally acquainted.

What I am trying to say is, there are some very competent and dedicated people in the Agency, but as with any large organization, there are bound to be individuals who are not performing as well as one would like. I have no doubts that that is the case with AID.

With respect, however, to more people being interested in and wanting to serve overseas, in the little time that I have had to chat with AID personnel—I have the impression that a good many of them do in fact, want to go overseas and help implement the objectives we have been talking about.

In addition, I think it may be reasonable to assume that the fact that AID has not had a permanent, in-place chief executive has had some effect on the Agency's morale and sense of purpose.

GOALS REFLECTED IN BUDGET REQUEST

Senator LEAHY. You mentioned basic human needs, and as some of your goals you spoke of education, health, population, and so on. But the budget does not reflect these goals. I am looking at some specific programs. In agriculture you proposed a $57 million cut from last year; health a $24 million cut; population $23 million cut; AIDS a $3 million cut. Now, please understand—I do not question your priorities, but does the budget reflect your priorities?

Dr. ROSKENS. This budget was prepared before my arrival, but I want to do my best to help see it through. As I said in my statement, I think the budget reflects the needs of the Agency at present. But I have also suggested to you—as I did at my confirmation hearing—that there are some reordering processes in order. I hope to be able to give you a sense of what those reordered priorities would be before too long.

With respect to the budget specifics that you mentioned, I am not able to respond in as much detail as my associates here. If you would like, they are available.

LEGISLATIVE DIRECTIVES REGARDING AID

Senator LEAHY. Well, maybe we will when the questioning comes around to me again. Also, on any of these questions, naturally you will be given an opportunity to expand, for the record if you would. I have actually stepped into Senator Kasten's time; if you would just allow me one more thing here.

You said at your confirmation hearing that AID is overburdened by legislative directives, regulations, and bureaucratic obstacles, and I tend to agree with you. Some of the legislative directives have been initiated because there has been some foulup in the past at AID——

Dr. ROSKENS. I am sorry, I did not hear you.

Senator LEAHY. Some foulup. It is an old parliamentary expression.

Dr. ROSKENS. I hear you now.

Senator LEAHY. Some of those regulations obviously were added by Congress because of AID mistakes of the past. Could you give me examples of a specific regulation that you would like to see done away with, or would you like to provide one for the record?

Dr. ROSKENS. I think I would rather provide them for the record, if I may, because it is a subject that I have talked about.

Senator LEAHY. Well, I would be very interested, and I asked the question seriously. So if you give it some thought——

Dr. ROSKENS. I will do that.

Senator LEAHY [continuing]. On that one and provide it because I think each of us would like to hear your answer.

[The information follows:]

AID PROGRAM

As I have studied the AID program and discussed the challenges of managing this type of program with people in and out of government, one message has been repeated more than any other: that is that the growth of earmarks and other forms of legislative restrictions—including functional accounts—has seriously handicapped AID's ability to effectively administer the U.S. foreign aid program.

It has also come to my attention that there has been a sharp rise in the number of earmarks, directives, targets and other indications of congressional interest over the past 5 or 6 years. I have learned, for example, that in fiscal year 1974—the first year for which functional accounts were provided—the only appropriations earmark was a limitation on population funding within the combined Health and Population account. There were no other Development Assistance earmarks (other than the four accounts themselves), and funds were made available until expended ("no-year" money).

In fiscal year 1981, only eight earmarks were attached to the functional accounts, affecting just over four percent of those resources: one specified a funding level, two gave a funding floor, and five gave funding ceilings. No other funding targets or directives were in place for either year—and funds were still available on a "no-year" basis. Over the ensuing 9-year period, 32 functional account earmarks—including six within other earmarks—were added to our appropriations legislation, consuming a full $377.5 million or 21 percent of our total DA in fiscal year 1990. In addition, there are many directives and targets in the legislation or in committee reports, affecting a sizable portion of total DA. And as a final point, fiscal year 1990 DA funds are generally available for initial obligation for only one year.

It seems to me that whatever the genesis of any individual earmark, and no matter how much the Administration may agree with its intent, the sheer weight of the totality presents an increasingly difficult management problem for AID. It now swamps our efforts to focus assistance on countries that have put in place policy and institutional reforms that increase their chances for broadly based sustainable economic growth and development.

My point is that I don't feel it constructive to get into the issue of which specific earmarks are the most problematic. Rather, I think we need to focus on the increasingly high proportion of AID resources being earmarked over the years. To the extent that this phenomenon reflects a lack of cooperation or trust between AID and the Congress, I want to focus on rebuilding these important elements of a healthy, productive relationship.

It is true, however, that certain earmarks are more problematic than others. For instance, complications arise when earmarks for specific purposes are imposed on a relatively small functional account. These earmarks force reductions in other activities without regard for the intrinsic merits of these "unprotected" projects, their importance in a particular country development program or the success with which they are being implemented.

Another kind of problematic earmark is one directing funding for activities for which there is no demand in AID country programs, but which must be carried out in individual developing countries. Planning in AID is done on a country-by-country basis and by the time projects appear in the annual Congressional Presentation, a considerable amount of economic, social and financial analysis has been invested in their design. This advance planning permits the Agency to conclude negotiations with host governments or intermediaries within the short period of availability of the appropriated funds—usually just one year. Earmarks which require the Agency to plan and mount new, unanticipated programs within the fiscal year of the appropriation, especially those which call for initiatives in which AID has little experience or technical capability, divert management and technical resources from planned uses and frequently lead to sub-optimal projects. Earmarks, however small

the amount, which require these special efforts are particularly difficult for the Agency to absorb and result.

In addition to the managerial difficulties imposed by earmarks, problems are also created by the many directives and "recommendations" contained in Committee reports and in the legislation itself. These directives are not limited to the overall policy objectives of the Agency. They go so far as to direct particular personnel assignments to individual AID field missions and recommendations for the awarding of specific contracts or the funding of individual projects. I am enough of a political realist to understand that this practice will never completely cease, but I am concerned with the significant growth in the number of these directives and in their specificity.

I would also echo the findings of the House Foreign Affairs Committee Task Force on Foreign Assistance report with regard to drastically reducing the number of: objectives in the Foreign Assistance Act—currently totaling 33; reporting requirements in foreign assistance legislation—AID's requirements are second only to the much larger Department of Defense; and, Congressional Notifications for project changes—which amount to over 700 annually. Working together, I believe many of these can be "done away with" without adversely affecting our foreign assistance program.

Before leaving this subject, I want to raise one issue in which this committee could be particularly helpful to AID. In the fiscal year 1990 appropriations bill of the House Appropriations Committee, revisions were included on the congressional notification procedures for development assistance that would have substantially reduced the number of notifications we currently send to the Congress. We would hope that these procedures could be reexamined by you in the context of the fiscal year 1991 appropriations act.

I hope this better explains some of the problems which stem from earmarking. I would very much like to discuss this subject further with you, with the objective of forging a more workable alternative based on a better understanding of one another's concerns.

LOCAL CURRENCY

Senator LEAHY. I yield to Senator Kasten.

Senator KASTEN. Mr. Chairman, thank you. Over a period of years, we have found examples of use and misuse of local currencies, documented by your inspector general. Many recurring problems with respect to this issue have to do with differing philosophies about the use and the monitoring of local currency whether it belongs to the host government or the United States, and whether or how we should oversee and record its use.

From time to time our committee has been tempted to enact some kind of legislation in this area, though we have ultimately resisted. I simply want to ask you if you would commit yourself, along with appropriate AID officials, to meet with us and particularly our staff, to resolve a couple of long-standing, conflicting interpretations on how we want to use this local currency.

I resist talking about flexibility. I resist legislating this, but it is important that we sit down and understand what we are counting and what kind of methods and systems we need. Will you commit yourself to sitting down and working with us?

Dr. ROSKENS. If this were a marriage ceremony it would obviously be an affirmative response.

May I just add that one of the factors I discovered in getting to know my new colleagues in AID is that they share my point of view: that we need to be in closer touch and communication with Members of the Congress and your staffs on matters such as this. That commitment is a very firm one at AID.

EARMARKS

Senator KASTEN. I would like to get it resolved or at least make sure that we understand where we are going to differ.

You spoke about earmarks and you went on for about a page and a half in your testimony, pages 8 and 9, with regard to earmarks and lack of flexibility. Let me just say that one of the problems with a shrinking pie is that different competing interests find the only thing that they can do is earmark, because if they do not, they are left out completely.

And this is a process that has now been going on since we began. In 1985, the total budget was about $19 billion or $20 billion. We are now down to about $14.6 billion. So whether it is in AID or in development assistance of other kinds, or whether it is even in some security systems areas, the pie is shrinking.

You could argue that we should take some of the so-called peace dividend and call it a democracy dividend and start spending some of this money encouraging democracies in the newly developing Eastern European areas.

You are not going to solve your flexibility problem or your earmarking problem by long testimoneys before this committee.

Dr. ROSKENS. I quite agree.

Senator KASTEN. It is going to happen only if we recognize that the resources are available.

ENVIRONMENT

I want to also emphasize the point that Senator Leahy made with regard to the environment. This committee has been interested in these issues since 1981 and, frankly, has been leading and, in certain cases, pulling and tugging you and others along this overall path.

The Senate report accompanying last year's foreign operations bill directed that conservation of natural resources and management of biodiversity be incorporated throughout our assistance program. As I said, we have tried to minimize earmarkings. We only designated $10 million specifically for biodiversity. That does not mean that that is all that should be spent. It means that that is a floor, but the key here is that you incorporate some of these concepts throughout the assistance program.

We recently acquired a memo on your Asia, Near East Bureau's strategy on resources, the environment. Among other things, the memo said, AID—and this is a quote:

> AID is not an environmental agency, it is a development agency, and environmental interventions, if any, must derive from out understanding of that countries economic growth path.

There are a number of statements in this memo. Now, this is precisely the opposite of what we are working toward.

The chairman and I sent a letter on the first of March to Mark Edelman, and his reply came on March 19. Just take a look at them, because your March 19 letter reflects a lot of what we are hoping for and working for. And if what is in this letter is what happens, we have made a step in the right direction.

Dr. ROSKENS. Thank you.

Senator KASTEN. And particularly, look at what we are working toward.

In order to avoid earmarking and our meddling and continuing to micromanage your business, it is going to be important that you join our team, in that we are not going to sit here and legislate part by part by part. But if we are not walking together, the only thing that we can do is to start to legislate back and forth, and that is not the direction that you want to go.

GROSS SUSTAINABLE PRODUCTION [GSP]

I have another specific question with regard to gross sustainable product. Public Law 101-45 requires that the administrator of AID incorporate into evaluations and projections of the economic performance of recipient countries, a revised system of accounting that recognizes depletion of natural resources.

Now, we are establishing a concept called gross sustainable production that would not be instead of but in addition to GNP, gross national product. What you have been directed to do is to incorporate this concept into your evaluations and projections. GSP is not designed to replace GNP. It is made to measure sustainable, economic activity and value added to the economy of the conversion of goods and services.

Once this system of accounting is in place, I think it will mean that we will not have to look at problems country by country, area by area. Fishing is pretty good in the Philippines, for example, because they dynamite and poison the coral reefs. So the fishing GNP was helped a little bit by those activities. Clearly, that is not the kind of activity we want to sponsor.

The same could be said of cattle ranching in Botswana, and timber production in the Brazilian rain forest.

Specifically, what has AID done to implement the use of gross, sustainable product as a measure of economic activity as required by Public Law 101-45?

Dr. ROSKENS. That is one question that I am not able to respond to at the moment. I can either give you the material that was just handed to me, or I can ask one of my associates to respond, whichever.

Senator KASTEN. Whichever you would prefer.

Dr. ROSKENS. Why don't we ask Reginald Brown to respond.

Senator KASTEN. Let me ask a few more questions.

Dr. ROSKENS. Go ahead.

AID IMPLEMENTATION OF GSP

Senator KASTEN. I would like to ask you to put all of this together in the record so that we have something to look at in 6 months to see if we reach your goals.

What have you done to implement the use of gross, sustainable product? What obstacles do you see to fully implementing these provisions? Maybe there are things that we should do differently this year in the law than we did last year to get this concept as part of your accounting.

Third, what are you doing and what can you do to work with other development assistance organizations, like the World Bank,

and the United Nations, to standardize your system of accounting with theirs so we do not end up with four or five different development organizations all calling GSP something different?

Dr. ROSKENS. I will defer to Regi Brown.

Mr. BROWN. Reginald Brown, Assistant Administrator for Program and Policy Coordination. We have started implementing this program but we all must recognize it is a very complicated subject. The concept of assigning values associated with various forms of environmental degradation is a major undertaking of substantial complexity.

As a start, we have made a grant to the World Resources Institute to do case studies on economic valuation in Costa Rica. We have contracted with the London Environmental Economic Center at the International Institute for Environment and Development to summarize the state-of-the-art approaches to valuing nonmarket services and environmental assets.

Our Science and Technology Bureau has established an environmental and natural resources policy and training project, which we think will contribute to this exercise and AID, the World Bank and several private organizations are sponsoring a conference here in Washington on the ecological aspects of economic sustainability, to be held on May 21 through 23. We hope that this conference will add to the dialog on this subject.

We have also contracted with the Harvard Institute for International Development to prepare a report on the problems, causes and potential solutions of environmental degradation.

Direct technical assistance is also being provided to the Governments of the Philippines, Indonesia, Sri Lanka, and Thailand on the application of economic methodologies to address environmental degradation issues.

Senator KASTEN. You understand that we are just beginning to work with this basic concept. There is nothing to make me think that that will not be carried over by the Bush administration and by your administration at AID.

But it is important that we do not end up with numbers that do not match up. As I said earlier, we are not trying to replace GNP. If you are counting one thing and someone up in New York is counting it differently, then we are really going to get ourselves confused.

Mr. BROWN. We will provide a more detailed response to your question for the record.

[The information follows:]

GROSS SUSTAINABLE PRODUCT

Public Law 101-45 directs AID and other Federal agencies to account for the depletion and degradation of natural resources in assessing national economic performance of recipient countries. The national income accounts measure the performance of an economy in terms of its total output and, therefore, changes in the growth rate. AID is well aware of the shortcomings of the conventional national income accounting system in its treatment of the environment.

At present, the integration of changes in the values of natural resource stocks into national income accounting systems is still in the formative stage. The United States and the other industrialized nations do not systematically adjust their national income accounts and economic growth rates to reflect changes in environmental resources. This is due to the difficulty of reaching a consensus on the way to depict environmental resources in the national income accounts, and the need to develop

the research techniques to estimate the monetary values of environmental resources.

Similarly, most developing countries do not account for the changes in their stock of environmental natural resources. The status of these stocks is an important issue because economic growth may be achieved by depletion of these stocks in ways which will constrain the prospects for long term sustainable economic growth. The conventional national accounting system may show a positive growth rate but, in fact, the real rate of growth may be negative when the loss of environmental resources is properly taken into account.

Despite these problems, AID is pursuing an active research agenda to better understand the importance of the renewable natural resource base in developing economies. AID's program efforts are (1) to improve awareness of the impact that environmental resources have on sustainable economic growth, (2) to improve the information base on the changes in the stocks of environmental resources, and (3) to improve the national income accounting framework for providing more accurate measures of economic performance.

Highlights of some of the recent AID program activities in the environmental resource accounting area are provided below.

1. AID has made a grant to the World Resources Institute (WRI) to prepare a case study on the "Economic Valuation of Natural Resources for Revising National Income Accounts in Costa Rica." This study will complement WRI work in Indonesia and China. The purpose is to identify and test methodologies for estimating the economic value of natural resource assets, and to incorporate such values into Costa Rica's national income accounting framework.

2. AID has contracted with the London Environmental Economics Center at the International Institute for Environment and Development to summarize the state-of-the-art approaches to valuing nonmarket services and environmental assets, and to examine their application to national income accounting approaches.

3. AID's Science and Technology Bureau is designing an "Environmental and Natural Resources Policy and Training Project" which, among other things, will provide a vehicle for undertaking further research and analysis on the potential for policy reform in developing countries that focuses on economic development and protecting natural resources and environmental quality. A component of the project will review approaches to estimate the value of natural resources and will attempt to incorporate those values into national income accounts.

4. AID, the World Bank, and several private organizations are sponsoring a conference on the "Ecological Economics of sustainability" to be held in Washington D.C. on May 21-23, 1990.

5. AID contracted with the Harvard Institute for International Development to report on the problems, causes, and potential solutions to environmental degradation. The report provides detailed descriptions of market and policy failures resulting in pollution and the inefficient use of natural resources.

6. AID is providing technical assistance to the Governments of the Philippines, Indonesia, Sri Lanka, and Thailand on the application of economic methodologies to address environmental degradation issues. The study areas include integrating environmental services into national income accounts and sectoral analyses of environmental issues such as pesticide subsidies, urban congestion, and water resource valuation and pricing.

The development of a useful resource accounting procedure will not be an easy task. Twenty-five years of effort preceded the introduction in the 1930's of standardized methods of measuring the Gross National Product and related national income concepts. Major conceptual problems can be anticipated in trying to measure changes in even a developed nation's stock of environmental resources. In dealing with developing countries, the problems will be compounded by already weak reporting systems. However, AID is working on the problem and we will coordinate our efforts with other interested institutions and Federal agencies.

We are working to help less developed countries introduce a national income accounting system which takes into account the adverse effects of environmental degradation.

Senator KASTEN. I have a couple of other questions I will submit for the record.

We look forward to working with you.

Dr. ROSKENS. Thank you very much.

Senator LEAHY. Doctor Roskens, I also have questions for the record and Senator Mikulski will be coming back with further questions, but let me ask you one.

GUATEMALA HEALTH PROGRAM

Last week the Christian Science Monitor said AID has suspended a $16 million health assistance program in Guatemala because millions of dollars could not be accounted for. Was it an accounting error or is it theft? You probably did not think I would raise this question, did you?

Dr. ROSKENS. No, sir.

Mr. SCHIECK. Senator Leahy, I am Fred Schieck, Acting Assistant Administrator for Latin America.

Senator LEAHY. Good to see you again.

Mr. SCHIECK. In 1988, we had an audit conducted of the health program that we are funding in Guatemala. In the course of that audit, it was revealed that there were irregularities with respect to $65,000 worth of disbursements. It appeared that there may have been falsification of travel vouchers on the part of Government of Guatemala employees and that maybe some procurements were not backed up with appropriate documentation.

As a result of that audit, the government proceeded to take some 20 employees of the Department of Health to their court system, and that matter is still pending in the courts. We then scheduled a followup audit in early March. Those auditors were unable to reach a conclusion with respect to the nature of certain expenditures because of lack of documentation. For example, they reviewed a random selection of 200 checks, but could not find the corresponding backup data. Based on this information, we have stopped the project.

Senator LEAHY. A basic indication is those moneys were stolen, not an accounting error?

Mr. SCHIECK. No; the only hard evidence of any missing money is the $65,000 I referred to earlier. What we have said to the government is that we want to see the documentation on approximately $2 million worth of other expenditures. There is no evidence that it was stolen and we are awaiting the documentation.

Senator LEAHY. We will leave this question open then, and if you will keep us advised as you get this documentation.

Mr. SCHIECK. Yes, sir.

WAR VICTIMS FUND

Senator LEAHY. I am going to have to go to the Senate floor to vote, but let me mention this; 2 years ago I initiated a small fund in the foreign aid budget to provide artificial limbs to civilian victims of war, called the War Victims Fund. AID has begun projects in Mozambique, Uganda and another one is planned for Laos. I am pleased with that kind of progress, but I am concerned that no one at AID has the responsibility of managing this program.

I would mention only this, that I have a very, very strong personal interest in this program. There has not been a single markup on overall foreign aid, or staff meetings, and meetings with other Senators where foreign aid was discussed, that I have not brought it

up. It is a small amount of money, but it can do an enormous amount of good. I ask you to take a look at how it is being managed, on top of all those hundreds of other things you have to do, to make sure that somebody is paying attention to it, and then let that someone come by. I would love to have a chat with him or her.

Dr. ROSKENS. That is fair.

Senator LEAHY. Thank you. We will stand in recess for a few minutes until Senator Mikulski gets back.

[A brief recess was taken.]

Senator MIKULSKI [presiding]. Senator Leahy had other responsibilities, and I will continue the hearing for him. Has Senator Kasten completed his questions? The committee will once again come to order and be in official session.

CHILDREN AND WOMEN IN DEVELOPING COUNTRIES

Dr. Roskens, I would like to go over a couple of my questions. As you know, very often when we look at the AID budget, we think in terms of geographic areas. It has been my approach, also, to think in terms of constituencies.

As you probably have noticed, Senator Kassebaum, my very dear colleague, is on the Foreign Relations Committee. She and I are the only two women in the Senate, and we have essentially taken on the issue of women and children in our foreign policy.

Having said that, Dr. Roskens, I would like to raise an issue about children—and I know that you have only been on the job a week. I would like to bring to your attention, No. 1, our genuine concern in this area. The other is, today we held a hearing in the Labor Committee about the status of children in war-torn areas, be they Nicaragua, Afghanistan, Pakistan, and so on, and the terrible devastation that has befallen children. And I will tell you where I am heading.

First, there will be, I hope, an administration position on the international agreement on the protection of children. Senator Dodd has already spoken to Secretary Baker about this, and I would like you to take a look at that. We are looking at, one, the Senate taking an official position in conjunction with the administration, and, two, in September for there to be a U.N. world summit on children.

AID has such important expertise to offer. Certainly, its child survival program, but also its other programs directly affect children. I would hope that as you do your work you would look always at the degree to which we are helping children, and seek new opportunities.

Have you had a chance to review the programs from the standpoint of No. 1, children, and No. 2, women in development, another issue that Senator Kassebaum and I have been very active in. Sometimes development has been big hydroelectric plants, but small-scale enterprises, in which I believe you have some expertise, have been some of the most beneficial.

So, have you had a chance to do that and could we hear your thoughts on that?

PROGRAMS FOR CHILDREN

Dr. ROSKENS. As a matter of fact, I have not reviewed them sufficiently to be able to give you any detailed response. I am very aware of both of these interests of yours. However, I have been only generally briefed on the programs to which you refer.

May I add that, particularly with respect to the questions that come to mind when you mention the term "children of the world," I happen to think that we have a fair amount of expertise in AID and an underlying sense of responsibility. It does not take one very long to realize that it is the children who will soon be taking on the responsibilities of the world.

That being the case, there will be opportunities for those young people that their predecessors did not have—particularly in those countries where fresh and open approaches to government are coming into play. That situation strengthens the high priority I attach to the issue of aiding and assisting the lives and welfare of children throughout the world.

Senator MIKULSKI. Well, we are going to look forward to essentially AID having an overall strategy on children. I believe that you will do that, and also, your predecessor, Alan Woods, had a very keen interest in this issue.

WOMEN IN DEVELOPMENT

In the area of women in development, we understand that since our legislation has passed, field offices are requesting briefings and matching grants, because we set up a matching grant program, and so on. Have you had a chance to be briefed on that program.

Dr. ROSKENS. I was Senator, but not in great detail.

Senator MIKULSKI. Dr. Roskens, it is not my intention to give you a quiz.

Dr. ROSKENS. Thank you. I would not want to fail so early.

Senator MIKULSKI. No; I am sure what you have done is take kind of a helicopter tour.

Dr. ROSKENS. That is right.

Senator MIKULSKI. You know the mission of the agency, now you are becoming familiar with the programmatic stuff.

POPULATION PROGRAMS

This, then, takes me to another issue that I know that, on a bipartisan interest, we have been very keenly interested in, and that is the area of population. I know that AID has notified us of the intent not to use funds for UNFPA. Senator Kassebaum and I were very active in that issue. It will be something that I will take up at another time, but I do know that both Senator Leahy and Senator Kasten have been very supportive in improving population programs.

Have you had a chance to—not raising the controversial issues of Mexico City and UNFPA at this hearing, though I happen to think both policies are out of date and out of line, but in terms of those programs that have been acceptable to the administration—have you had a chance to review those and what are your intentions on that?

Dr. ROSKENS. Again, I have been briefed in a very general way, but I am keenly interested in that subject and in getting better acquainted with it as soon as possible. I do want to reiterate my own concern for and support of family planning throughout the world. I think that is a very important priority. Obviously, with respect to commenting further on the controversies that exist, I am not prepared to offer much information at this time.

Senator MIKULSKI. No; and I understand that. Those controversies have been long term in existence. We will not resolve them at this hearing. But I think as we look at the issues facing the world—and I know Senator Kasten talked about the environment and Senator Leahy about agriculture—a lot of this has its direct link to population. And we are supportive of those family planning projects.

EASTERN EUROPE

I also have a particular interest in Eastern Europe. There was very little that we could do at one time. We got some agricultural money, one water project going; we got some emergency medical supplies that were very much needed. And now the situation has changed, and I am concerned about two things, Dr. Roskens: one, adequacy of response to emergency needs in Eastern Europe and, two, coordination of our response.

Let me just state a problem that I see. Everybody is coming to see me and others of us who have expressed an interest in Eastern Europe. They have got an idea. They want to start a nonprofit. They want to run to Poland; they want to run to Czechoslovakia; they want to go into Hungary. And these are American institutions, and some maybe not even formed. And then they come to me to say, how can we raise money, et cetera.

Have you had an opportunity to talk about two things? One, the coordination of requests to be able to go in and help, particularly through nonprofit or about-to-be-formed nonprofit. Maybe some need to be discouraged and encouraged to join existing organizations.

The other is capacity building. You know, my own background is a social worker, a community organizer, community development. I know your philosophy is empowerment, capacity building.

In countries that have now shed themselves of communism, Dr. Roskens, as I am sure you have observed, there are no intermediary institutions. They do not have banks, and they do not have credit unions. They do not have a United Fund. They might like to start Girl Scouts. I mean, all of these things they must have as they move to a free-market economy. The hallmark of a democracy like ours has been nonprofit organizations, habits-of-the-heart organizations, as well as intermediaries like credit unions.

You know, there are a lot of Polish farmers that have resisted collectivization under communism, but now they will not want to join a bank that they will not understand or trust. But I bet they would pull those zlotys out of those mattresses and go in a credit union, where neighbor loaned to neighbor and they were in charge.

Could you comment on that? Has AID reflected on that or again, you are just trying to get your——

Dr. ROSKENS. Let me say, Senator, that this is a subject that involves the whole of Eastern Europe.

Senator MIKULSKI. What I just said?

COORDINATION OF EASTERN EUROPE PROGRAMS

Dr. ROSKENS. The whole, not the hole, of Eastern Europe is a subject that we have spent a great deal of time discussing. I wish that I had been able to give it even more attention in the short time that I have been here. The remarkable changes that have occurred have resulted in a good many serious and difficult problems, many of which you have identified.

I am as concerned, as you are, about the subject of coordination. We too, even myself personally, have received proposals from individuals who say: I know someone who said that if I would come and offer this kind of assistance, we could get a new business going tomorrow, et cetera, et cetera. If we were to get 50, 100, or 200 of those proposals going tomorrow, all of us know what kind of goulash would result, no pun intended there.

Let me add that coordination is a subject we are attending to. It is something that is going to be given an even higher priority during my tenure.

With respect to capacity building, I think that is a very good choice of wording, because it describes items such as financial markets—banks, credit unions, and exchanges, agencies which issue titles to property, nonprofit organizations, or what have you. The point is that these sorts of organizations and the institutions they implement are missing from those countries that have little familiarity in their background or history with what we know as democracy and economic liberty. People in, let us use Poland and Czechoslovakia as examples, need some expertise immediately in some of these areas. It is not so much contributions in dollars as it is expertise, especially our understanding of the organization—political and economic—of free, prospering societies and the governmental structure that preserves individual liberty.

I have heard of companies in this country that are making available personnel to go over to these infant democracies on short-term bases. This is an example of the kind of assistance that I think can be most helpful.

We have also, of course, started the free enterprise funds in both Poland and Hungary—kicking off with the establishment of Enterprise Fund Boards, which are made up of corporate leaders. That is another example of the kind of activity that can be done.

We need to give considerable attention to the matter of coordination, and we do not have unlimited numbers of people to do that. Some sense of order must be established soon with respect to our contributions to Eastern Europe along with the contributions of other countries.

Senator MIKULSKI. Well, as I understand it, Doctor, you are to coordinate the management of Poland funds from Exim, USDA, USIA, EPA, Peace Corps, AID itself, and so on. Some have said—and this is street talk, so take it for that and said to you in that way—that AID is not happy about receiving money that will be administered by other agencies. Is that so? Are there glitches that

have developed with all this shared responsibility? Is there a clear direction that you are empowered to be the coordinator? One of the hardest jobs is to be the coordinator of the coordinators.

Dr. ROSKENS. You are absolutely right. Of course there are some glitches. There have been circumstances where the very thing you are talking about has occurred; where differences in points of view—sometimes rather marked differences—have made it difficult to proceed with the coordination function.

However, we can overcome that sort of problem if we persevere—including the people in our Agency, those other agencies, in the Congress, et cetera. I mean that quite sincerely. I think we can accomplish most all of the objectives set out in the various pieces of legislation to which you have referred, if we decide we are determined to do so. But it will take a lot of will, determination, and a sense of purpose. That is what I referred to at the outset of today's hearing. One of the things we need to do in the Agency is to sharpen our focus, so that it is quite clear, not only to those of us on the inside but externally as well, what it is we are about and how we are going to set about doing it.

Senator MIKULSKI. Well, Dr. Roskens, I sense from you that you are a man who likes to approach things from a meticulous management stand point. That seems to be the tone of the conversation here today.

INSPECTOR GENERAL REPORTS ON LOCAL CURRENCY

This takes me to something from the inspector general. First of all, I want you to know I share the concerns that Senator Kasten raised on local currency. I would encourage you to read old inspector general reports because they are chock full of information on how to improve management.

That is not to say that the professional staff did not carry the ball during Alan Woods illness. He was a wonderful and gallant and brave man, and his staff tried to sustain him and the Agency. But there is a lot to be done. We have got a lot of catching up to do.

EARMARKS

Now, let me just comment about the Dole proposal, and I know Secretary Baker's comments about it, of shaving from some of the allocations to our traditional allies and transferring them to Eastern Europe.

DEMOCRACY IN EASTERN EUROPE

As you have just pointed out, Dr. Roskens, we need leadership in Poland, Czechoslovakia, and Hungary. People like Havel, Walesa, Mazowiecki and so on, are making sure that as Eastern Europe regains its pride nationalism moves ahead in an assertive and democratic way. But we must remember that there is a dark side to the history of those countries, which is an antisemitic one.

The leadership there is dealing with that in the most constructive and positive way. Hungary has once again stepped forward as a transition point for Aeroflot flights to Israel. Mazowiecki has

stepped forward to say, if you need to, we will help Operation Exodus through Poland. Apologies for the Holocaust.

In this context the United States must be very careful, and I would hope as we discuss our foreign aid, we do not inadvertently, exacerbate Old World tensions, because the leadership there does not want to do it and we should not feed into some of that dark side that remains there.

I would hope in your own fine way with the good, solid midwestern values you bring to this, that you will also reinforce that enlightened type of leadership. We know the administration will have policies to shift foreign aid, but I think we have to be sensitive to how we can build on the best of history and current events.

So, I do not mean that to be a lecture, but someone with my last name is the one that can say it out loud, and we do not have to repeat in 1990, some of the bigoted attitudes of 1939.

Dr. ROSKENS. Very well said.

ADDITIONAL COMMITTEE QUESTIONS

Senator MIKULSKI. I have no further questions.

There will be questions for the record from Senator Leahy, Senator Kasten and perhaps some others. And once again, a warm welcome.

Dr. ROSKENS. Thank you very much.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

ASIA, NEAR EAST, AND EUROPE BUREAU

SENATOR LEAHY: I'd like to ask you about the Bureau for Asia, Near East and Europe (ANE).

From where I sit this bureau makes no sense. It spans countries from Poland through Yemen to Indonesia. There is no regional unity or viewpoint.

According to my information, this bureau is an accident of bureaucratic compromises, not a rational creation to deal with interrelated regional or development problems.

I cannot understand how all the vast problems of the emerging democracies in Eastern Europe can be handled by a subordinate office within a bureau charged with the Middle East, the Near East, Southeast Asia, and everything else.

From what I hear, A.I.D. does not have the organization or the personnel, either in Washington, or on the ground in Eastern Europe to manage our aid programs.

What are your thoughts on this? Is there a rationale for the present ANE structure? Would it make sense to establish a Bureau for Europe to coordinate our aid activities in Eastern Europe?

DR. ROSKENS: It is my intent to review the entire structure of the Agency. I have no plans for a massive reorganization, but I expect to make some changes. I will report those changes to you as soon as is practical.

POPULATION AND THE ANE BUREAU

SENATOR LEAHY: I am not happy with what I am hearing about the attitudes of A.I.D., above all the ANE Bureau, about population activities.

I do not know how I could have made clearer the high priority this subcommittee gives to population activities.

Yet, I continue to receive reports that A.I.D. as a whole, and the ANE Bureau in particular, is determined not to give population control programs the same high priority, either for funding or for effort. My information is that ANE plans to cut back sharply on current programs to provide contraceptive services and voluntary family planning programs.

The idea that, just when we are beginning to see encouraging results as a result of decades of effort, ANE could seriously consider redirecting its population programs away from direct provision of contraceptive services and commodities is astonishing.

Will you review ANE's plans for population activities, in particular its allocation of resources for procurement and provision of contraceptive commodities and services?

DR. ROSKENS: Population programs in the Bureau for Asia, Near East and Europe (ANE) are strong and expected to remain so throughout this Administration. Twelve bilateral population agreements in ANE provide family planning assistance to countries in the region and ANE is attempting to be as responsive as possible in meeting demand. ANE host country governments are committed to voluntary family planning and they are increasingly working with the commercial sector, private health care providers, non-governmental organizations and employers to expand access to

family planning. Given the economic and demographic diversity of the region, such assistance ranges from helping the very successful Indonesian national program implement their strategy to privatize and extend family planning services, to providing technical assistance to the Government of Jordan's nascent marketing campaign to encourage birthspacing.

ANE has also undertaken population sector assessments in Yemen, Turkey, Thailand and Tunisia. These assessments have facilitated the development of appropriate strategies for an orderly phase-down of assistance in Thailand and Tunisia, two advanced developing countries that should be graduating from reliance on donor assistance to self-sustaining programs. In Yemen, the assessment led to preparations for the design of a bilateral program, and in Turkey the review will lead to a consolidation of resources and change in priority areas of focus, which should yield better family planning program performance in both the public and private sectors.

The Bureau of Science and Technology's Office of Population (S&T/POP) assists both bilateral programs as well as various other countries throughout the world. S&T/POP provides assistance in demographic and operational research, contraceptive field trials, training of medical and para-medical personnel, and innovative service delivery approaches.

In the area of contraceptive commodities, A.I.D. has been instrumental in shifting the purchase of major contraceptive commodities to other donors and the private sector. In Bangladesh, for example, the World Bank has agreed to take on support for the purchase of condoms. This allows A.I.D. to focus its assistance on its comparative advantage in technical assistance.

From a budgetary standpoint, ANE population assistance represents approximately 30 percent of A.I.D.'s population portfolio. When S&T/POP and ANE assistance to Asia and Near East countries is totalled, it represents approximately 40 percent of all A.I.D. population assistance.

A.I.D. undertakes a portfolio review as part of each year's budgetary process. I will be reviewing plans for all population activities, including ANE's, at that time.

REVIEW OF A.I.D.'S POPULATION PROGRAM

SENATOR LEAHY: Will you undertake a thorough review of your Agency's population program to ensure that they are fully in compliance with the law and the stated priorities of the Congress?

DR. ROSKENS: In March 1989 the GAO began a broad survey of A.I.D.'s population program in response to a request from the Senate Appropriations Foreign Operations Subcommittee. A.I.D. staff cooperated completely with this review and a final report is expected this spring. The GAO findings and recommendations will provide a useful basis for determining the appropriateness and nature of any further review of A.I.D.'s population program.

REFORM OF FOREIGN AID PROGRAM

SENATOR LEAHY: During the Reagan Administration we saw a dramatic shift in resources from development to security assistance. Development assistance used to be two-thirds of our bilateral foreign aid budget. Now it is one third.

Last year, the late A.I.D. Administrator Alan Woods released a report called "Development and the National Interest."

According to that report, our foreign aid programs are out-of-date. It called for "radically reshaping" them to meet today's and tomorrow's challenges.

A year has passed. What is A.I.D. doing to follow up on that recommendation?

DR. ROSKENS: The "Woods Report" was a very insightful report and I have studied it carefully. I also believe there are some lessons to be learned from our past experience in shaping how the Agency should respond to an increasingly changing world. Having just arrived at A.I.D., I have not had the opportunity to assemble any task force or other group to look at the issue of the future of foreign aid, but I think it is a very good idea and one that I should consider.

The Agency has not yet followed up on the report's recommendations because of the untimely death of Ambassador Woods. However, I fully recognize the need for reform in our foreign aid program to meet the challenges of today's rapidly changing world. I am intent on pursuing an agenda for such reform.

TASK FORCE ON FOREIGN AID REFORM

SENATOR LEAHY: Last year in our Committee report we urged the Administration to convene a task force of A.I.D. and other agencies to take Alan Woods' report and develop a plan for the future. What was done in response to our recommendation.

DR. ROSKENS: As I indicated, nothing has been done to set up such a task force to follow up on Alan Woods' report. I am very intent on taking a cooperative approach to the problems of development and want to work with Congress and other agencies of the U.S. Government as much as possible to build the most effective U.S., not just A.I.D., foreign economic assistance program. Alan Woods' report will be part of that deliberative process.

BUDGET REQUEST FOR SUB-SAHARAN AFRICA

SENATOR LEAHY: You have called Africa a "major development challenge." You have said you believe progress there "must simply come much faster."

Yet the Administration proposes a cut in development assistance for sub-Saharan Africa from last year despite the fact that in the past year the population of that region has increased by millions of hungry children. (We understand that there is disaster assistance money that can be spent in Africa. However, that money does not have to be spent in Africa and it is for emergency disasters, not development.)

How do you reconcile your statement that this is a challenge--a tragedy even--with the Administration's budget request?

DR. ROSKENS: We and the other donors recognize that the most intractable development problems in the world today are concentrated in sub-Saharan Africa. This region, with almost 12 percent of the total population of less developed countries, receives about 30 percent of official development assistance.

The creation of the Development Fund for Africa (DFA) in FY 1988 was explicit recognition by the Administration and Congress that Africa has special economic development needs. Severe

constraints on foreign assistance and the competing great needs in other parts of the world restrict the overall magnitude of the Administration's request for the DFA for FY 1991. However, our request for the DFA has increased over time -- the FY 1991 request is 12 percent higher than the FY 1988 request. The actual amount available for Africa's long-term development in FY 1991 will increase by $15 million over the FY 1990 level. This is because the need for a DFA set aside for emergency assistance requirements has been obviated by a $15 million increase in the FY 1991 budget request for International Disaster Assistance. The decrease in Economic Support Funding (ESF) over the FY 1988-1991 period reflects the fact that geopolitical emphases have changed, leading the Administration to request more ESF for countries in other geographic regions.

In addition to U.S. bilateral funding, there are many other avenues through which we channel our assistance. Examples are international financial institutions such as the World Bank's International Development Association (IDA) and the African Development Bank, as well as the African Development Foundation established by Congress in 1980, United Nations organizations, and a score of private voluntary organizations. Indicative of the significance of our role in African development funding is the fact that the United States is providing a major portion of the IDA IX replenishment, nearly half of which will be used for Africa.

Given the limitations on DFA resources, we believe it is critical to use them as effectively as possible, focused on the process of bringing about sustainable economic growth so that countries can meet their people's needs. However, for the people of sub-Saharan Africa, real social and economic progress is going to require not only a continued flow of external resources but also more efficient use of their own resources.

POPULATION CONTROL

SENATOR LEAHY: I was pleased that you mention international family planning.

What I find astounding is that while the population of the developing countries is skyrocketing and millions of women cannot get contraceptives, A.I.D. is requesting a cut in funding for family planning services. Why? Who at A.I.D. is responsible for making that decision?

DR. ROSKENS: A.I.D. expects to spend approximately $247 million on population activities in FY 1991 through the DA, DFA and ESF accounts. An estimated $75 million of these funds will be directed to Africa.

In FY 1990, A.I.D. requested $201 million for the Population Planning account based on USAID mission and bureau requests, and Congress appropriated $220 million. This allowed for forward funding with FY 1990 funds of population bilateral agreements which would have been funded in FY 1991. In the 1991 CP, A.I.D. requested approximately $193 million for DA Population activities based on mission and bureau estimated requirements. A.I.D. also proposed a new Development Policy Reform Program, funded at $75 million dollars to reinforce developing countries efforts to improve the policy environment for broad-based economic growth and sustainable development. When those resources are allocated, the DA total for population will be adjusted upward.

Demand for family planning assistance has increased in recent years and A.I.D. has responded on two levels. First, we continue to improve the efficiency of family planning programs. Second, while the U.S. remains the leading international donor in the population arena, we are expanding the resource pool by leveraging private sector support and by encouraging other donors to increase the levels and quality of their population assistance.

Family planning program efficiency has been improved through A.I.D. support for such activities as contraceptive development, management and logistics training, and operational research aimed at improving family planning service delivery.

Bilateral and multilateral assistance for population activities has increased in recent years. Most notable are increases in assistance through UNFPA and from the Government of Japan.

A.I.D. has leveraged private sector support for family planning by supporting the development of employer-provided family planning, the commercial marketing of contraceptives, community doctors' programs, insurance coverage for family planning, and by tapping the expertise and financial support of the entertainment industry for communicating family planning messages. We have also been instrumental in encouraging the privatization of family planning in countries like Indonesia.

As Administrator, I am now ultimately responsible within A.I.D. for the budget process and all major program directions.

UN POPULATION FUND

SENATOR LEAHY: Last year both the House and Senate voted to make a U.S. contribution to the UN Population Fund. The President vetoed the foreign aid bill over that provision.

What is A.I.D.'s position on this issue? Who in the Administration will be making the decision whether to fund UNFPA?

Senator Mikulski, Senator Hatfield, Senator Kassebaum and I wrote to the President this year urging him to meet with us to discuss a compromise on this issue. If we can be certain that no U.S. funds go to China, and that our money is only spent on voluntary family planning in Romania and Sub-Saharan Africa, would A.I.D. support a contribution to UNFPA?

DR. ROSKENS: The U.S. has consistently stated that we would consider providing support for UNFPA again in the event that there are significant changes in the UNFPA program in China or in the Chinese population program itself that would warrant a resumption of U.S. funding for UNFPA. A.I.D. has budgeted $10 million for FY 1991 for UNFPA in the event that such changes occur. I expect to make the decision on how to allocate those funds.

Since the Kemp-Kasten amendment was enacted, the UNFPA has not received U.S. assistance because of UNFPA's support for the family planning program in China where implementation of the government's one-child per family policy has resulted in coerced abortion and involuntary sterilization. The Kemp-Kasten amendment prohibits all assistance to an organization which supports or participates in the management of a program of coercive abortion or involuntary sterilization. This provision prevents A.I.D. from making any contribution to the organization even if U.S. funds are limited for use in Romania or Sub-Saharan Africa. This limitation would be comparable to the Mikulski amendment which prompted President Bush to veto the FY 1990 foreign assistance appropriations bill.

Earmarking funds for UNFPA and then setting restrictions on how the funds could be used would not be an effective way to draw attention to the Administration's concern about coercion in the Chinese family planning program.

SUPPORT FOR DEMOCRACY

SENATOR LEAHY: You mention economic and political "pluralism" as one of your priorities. I assume economic pluralism means support of private enterprise and free markets. What is A.I.D. doing to support political pluralism -- to strengthen labor unions, the courts, legislatures, the media? How much are you actually spending on this kind of assistance?

DR. ROSKENS: Supporting political pluralism is an intrinsic objective of A.I.D and is woven into the design of many activities. For example, A.I.D. supports activities which specifically bolster political pluralism and democratic institution-building. These activities include support for labor unions, cooperatives, strengthening judicial capability, human rights and democratic institution building. Human rights and democratic institution building include such activities as technical electoral assistance, support for nascent legislatures, journalism training, civic participation and human rights education. In FY 1991, A.I.D. has requested $98 million for activities specifically designed to strengthen political pluralism.

OFFICE OF ENERGY

SENATOR LEAHY: Last year Senator Kasten and I included a new initiative to strengthen A.I.D.'s role in reducing global warming. We required A.I.D. to focus its efforts in "key" developing countries where the problem is the most urgent. For example, in India where energy consumption is enormous, or Brazil where deforestation is such a problem.

We also directed that the budget of the Office of Energy be targeted at $20 million.

According to A.I.D.'s Congressional Presentation document, the Office of Energy will get $15.4 million this year, up from $10.1 million last year. That is progress, although less than what we recommended.

Then for FY 1991 you propose a $2.1 million cut. Why? Our whole purpose was to start putting more resources into this program, not less. Are we going to have to earmark the Office of Energy to attain the level of funding Congress believes is necessary?

DR. ROSKENS: A.I.D. proposes to increase obligations for its energy program from $206 million in FY 1990 to $224 million in FY 1991. This reflects A.I.D. and congressional directives of putting more resources into energy. Although the budget of various offices will vary from year to year, the Agency's total energy program is expanding rapidly. The budget for the Office of Energy will be augmented by regional bureau and mission buy-ins of approximately $4 million in FY 1990. I must emphasize strongly that the Office of Energy represents less than 10 percent of A.I.D.'s total energy program, which is largely implemented through the geographic bureaus. We expect regional bureau "buy-ins" to increase the Office of Energy's total funds to or above the $20 million target.

A.I.D.'s energy program encourages the use of clean technologies that use renewable energy sources, including biomass energy, wind, geothermal, photovoltaics, and small hydro; improved power sector investment ("least-cost") planning; increased energy efficiency; and policy reform, including energy pricing and private power investment.

A.I.D. has provided energy conservation services to more than 25 countries, emphasizing conservation primarily in the industrial and electricity sectors, but we support programs in the building and transportation sectors as well.

A.I.D. leverages its resources for energy through collaboration with other donors and U.S. Government agencies. For example, in India A.I.D. is supporting research and rapid commercialization of more efficient and renewable energy systems and has been joined with the World Bank in conducting an assessment of the power sector. In Poland, A.I.D. is working with the Department of Energy on the retrofit of a coal power plant to reduce sulphur and nitrogen oxide emissions, and with EPA on an air monitoring system for Krakow.

A.I.D.'s current and proposed budget clearly illustrates the Agency's commitment to a continuing increase in funding for energy.

KEY COUNTRIES

SENATOR LEAHY: I understand you have identified ten "key" countries, including Brazil, India, Mexico, Poland, Indonesia. What are you planning in India? In Brazil? In Indonesia?

In Poland I am told you are focusing almost entirely on "clean coal" technologies, but that there is great potential for improving energy efficiency. What could we do more of to help to conserve energy use?

DR. ROSKENS: In India, the A.I.D. Mission, with the assistance of A.I.D.'s Office of Energy, is designing a five-year, $15 million energy efficiency project to promote efficiency improvements in generation and industrial end-uses. It will reduce energy subsidies and support private cogeneration investments that would sell private power to the grid. This program, which will mitigate greenhouse gas emissions and reduce demands for new fossil fuel plants, is expected to leverage substantial project financing from the multilateral development banks.

A.I.D.'s energy resources development project in India will set up a photovoltaics testing and training center during FY 90. A.I.D. is also implementing an innovative approach to energy technology commercialization, the $20 million Program to Accelerate the Commercialization of Energy Research (PACER), which includes renewables and the development of more energy efficient technologies.

In Brazil, A.I.D. will allocate approximately $2 million in FY 90 for global climate change activities. Promoting Brazil's capacity for conserving and sustainably using its Amazon forest resources will be a main focus. The Agency is also helping to create a private, not-for-profit institution with public and private financing that will focus on energy efficiency activities involving the private sector. Creation of the institute is being coordinated with other donors including the German foreign aid agency, The World Bank, and the Inter-American Development Bank.

In Indonesia, A.I.D.'s Office of Energy is working with other donor agencies to determine the management, technical, and

institutional improvements that can be made to improve the performance of isolated diesel power plants. The Office is also assessing opportunities for using sugarcane and palm oil wastes for producing significant quantities of electricity with no net CO_2 emissions. Other renewable energy activities include collaboration with the Department of Commerce and the Export Council for Renewable Energy in sponsoring a mission to Indonesia this summer to investigate opportunities for renewable energy applications in the industrial sector.

A.I.D. is also designing a new $18.5 million Natural Resources project in Indonesia for FY 90. It will address both environmental policy issues and sustainable management of Indonesia's extensive tropical forests as well as other critical needs related to the conservation of biological diversity.

In addition to promoting "clean coal" technologies in Poland, A.I.D. is planning several activities intended to conserve energy as part of an overall strategy to reduce greenhouse gas emissions. These activities include utility pollution control, management and operation of utilities, energy planning, and training in energy conservation. A number of these activities focus on leveraging financial resources of the private sector, multilateral development banks, and bilateral donors.

A.I.D. is contributing to the Polish government's thinking on a national energy conservation policy, which will be submitted in the near future to the Polish Parliament. A.I.D. is also examining various regional approaches to energy efficiency, including our cooperation with EPA on the regional environmental center in Hungary. The two agencies are also exploring the possibility of establishing an affiliated energy efficiency center in Warsaw.

A.I.D. is promoting opportunities for U.S. trade and investment, including joint ventures between U.S. and Polish companies. Possible areas for private sector participation include energy cogeneration and the manufacture of energy efficient technologies, insulation, heating system controls, lighting, motor vehicles, and waste heat recovery.

A.I.D. and EPA are also investigating the use of Poland's abundant coalbed methane as an energy source. Such application would reduce Poland's reliance on coal as well as emissions from coal mines of this increasingly important greenhouse gas.

In Mexico, approximately $1 million will be allocated in FY 90 to the Agency's Global Climate Change Initiative. Activities could include increasing awareness of climate change and possible preventive measures; support for resource management plans for eight priority protected areas in southern Mexico; pilot community development projects to test potentially sustainable forest use technologies, such as natural forest management and non-timber extractive industries; training in energy efficiency and "clean" energy technologies; and exploring the potential for energy efficiency improvements, especially cogeneration, and opportunities for private sector investment.

ENERGY AND ENVIRONMENT STAFF

SENATOR LEAHY: One of the things we urged last year was an increase in A.I.D. staff with expertise in the environment. The lack of such staff who can advise on what forestry and energy actions to take has been a serious problem in the past. I am told

you plan to add three "global warming" staff to be stationed in Mexico, Brazil, and Washington. What other steps are planned to strengthen environmental staff? What can we do to help?

DR. ROSKENS: A.I.D. is taking steps to hire and support up to 20 environmental employees each year for three years. In January, overseas missions and regional and technical offices in Washington were queried regarding the feasibility of establishing program-funded environmental positions. A personnel hiring plan was prepared to determine how best to establish and fill those positions which were programmatically and financially feasible.

Bureaus and offices are moving ahead to identify, establish, and fill environmental positions with qualified individuals. A summary of the current status of hiring is as follows:

Regional Environmental Adviser (Barbados): advertised
Regional Environmental Adviser (Guatemala): advertised
Regional Environmental Adviser (Ecuador): on board
Regional Forester Caribbean (Puerto Rico): on board
Regional Pest Management Adviser (LAC Washington): on board
Environmental Adviser (LAC Washington): on board
Environmental Adviser (LAC Washington): on board
Global Warming Adviser (Mexico): advertised
Global Warming Adviser (Brazil): advertised
Global Warming Adviser (LAC Washington): identified
Environmental Project Manager (ANE Washington): identified
Natural Resource Economist (ANE Washington): identified
Industrial Pollution Specialist (ANE Washington): on board
Environmental Specialist FSN (Bangladesh): identified
Natural Res and Energy Policy Adviser (AFR Wash): on board
Global Climate Change Adviser (AFR/Washington): identified
Environmental Training Specialist (S&T/Energy): on board
Environmental Specialist (S&T/EN): identified
Global Warming Adviser (S&T/AGR): identified
Pest Management Adviser (S&T/AGR): identified
Animal Agr Systems Adviser (S&T/AGR): identified

The "identified" means that A.I.D. is in the process of creating the position. "Advertised" means the Agency is actively searching for a candidate; "on board" means an employee is in place.

DEBT FOR NATURE EXCHANGES

SENATOR LEAHY: Last year we gave A.I.D. authority to provide funds to nongovernmental organizations for debt for nature exchanges, and to allow those organizations to earn interest on those funds until they are used for an approved exchange.

Has this resulted in any new debt for nature exchanges? Do you agree that this is an important way to help these indebted countries protect their natural resources? Who handles this at A.I.D.? How can we do more of these exchanges?

DR. ROSKENS: A.I.D. established a Debt for Development program in February 1989 under the authority provided in the Foreign Assistance Act of 1961, as amended. New authorities relating to Debt for Development exchanges were provided to A.I.D. in the Fiscal Year 1990 Foreign Assistance Appropriations Act (P.L. 101-167) and the International Development and Finance Act of 1989 (P.L. 101-240). The cumulative effect of these enactments for A.I.D. has been: (1) to relieve the Debt for Development grantee (a non-governmental organization) from the previous requirement to

return to the U.S. Treasury interest earned on local currencies received from the exchange of A.I.D. financed debt, and to allow such an organization to establish endowments with such local currencies; (2) to provide permanent, specific authority to A.I.D. to finance Debt for Development transactions involving natural resources ("Debt for Nature" exchanges); and (3) to direct A.I.D. to take the initiative in stimulating Debt for Nature exchanges, especially in sub-Saharan Africa.

While A.I.D. has not yet financed any Debt for Nature exchanges under the new statutory provisions, the new authority has permitted our Ecuador mission to move ahead with plans for several Debt for Development activities, including one Debt for Nature project. These would not have been feasible under the previous rules. In Addition, the Philippine mission is designing a $25 million Debt for Nature activity, and a recent proposal to protect 20 national parks and reserves in Latin America and the Caribbean will benefit from the Debt for Nature authority. Panama may also benefit from the new authority, depending on the outcome of the supplemental legislation currently before Congress. I strongly believe that the Debt for Nature exchanges can provide a valuable mechanism to help indebted countries protect their natural resources.

Grants to private and nongovernmental organizations which include a debt conversion component are approved using the Agency's normal project approval process. The Office of Economic Affairs in the A.I.D. Bureau for Program and Policy Coordination coordinates A.I.D.'s debt conversion activities.

To encourage greater use of the debt exchanges in developing countries, A.I.D. also provides grant assistance to the Debt for Development Coalition, a Washington based organization, charged with informing and assisting the not-for-profit community on ways to utilize the debt conversion mechanism. Finally, in those countries where debt conversions are feasible, we continue to encourage our missions to consider the advantages of the debt swap mechanism.

FUNDING FOR AIDS

SENATOR LEAHY: Last year we split our $42 million appropriation for AIDS fifty-fifty between A.I.D. and the World Health Organization. You have requested almost $3 million less for next year. How can you possibly justify that?

I am told that A.I.D. field staffs could do more to combat AIDS if we give them the resources. Can A.I.D. effectively use more resources to fight AIDS?

DR. ROSKENS: A.I.D. believes that the FY 1991 funding request is a solid one and will enable the Agency to continue to make progress in addressing the AIDS situation. We also anticipate that in FY 1991, as in the last 3 years, the total amount of funds obligated for fighting AIDS will exceed the amount appropriated in the AIDS Account. In FY 1988, 1989, and 1990, Health, ESF, DFA, and Population Account funds have also been used for AIDS prevention, and we expect that this use will continue in FY 1991.

It is clear that no single donor, nor the donor community as a whole, can meet all the needs in the AIDS area. Just as in the United States, AIDS cases will continue to be a drain on developing country health systems and resources.

HIV infection, and consequently AIDS cases, are continuing to increase worldwide. In some areas, the increase is alarmingly

rapid. In Southern and Central Africa, infection is now well-established in the general population, and infection levels of between 5 and 25 percent or higher are routinely reported among urban young adults. In West Africa, parts of the Caribbean, and Thailand in the Far East, infection rates have reached between 10 and 30 percent among some high-risk populations.

While these trends are unlikely to be reversed in the short term, there are some signs of progress. Follow-up operations research on some of the programs shows that peoples' knowledge of the disease is improving. Reports also indicate that people are beginning to change their high-risk behavior as a result of this newly acquired knowledge.

UGANDA: AIDS VACCINE AND DRUG RESEARCH

SENATOR LEAHY: I also understand that the World Bank is planning to give Uganda $30 million to test AIDS vaccines and experimental drugs. If the United States were to contribute a few million dollars towards this program our researchers could participate in these important studies. Would you support that?

DR. ROSKENS: No. We do not believe the use of A.I.D. funds for testing AIDS vaccines and experimental drugs would be constructive. The NIH and CDC have substantial programs in this area. A.I.D. is the only U.S. agency substantially involved in AIDS prevention and control in developing countries. We feel strongly that direct A.I.D. funding support to drug or vaccine research would inevitably hurt our prevention and control efforts.

We do believe that A.I.D. has an important role to play in facilitating drug and vaccine research in developing countries, and we have been doing so. On March 29, 1990, we hosted an informal meeting of representatives from all of the agencies interested in such research in Uganda, including the National Institutes of Health (NIH), the World Bank, the Department of State, the World Health Organization, and the Institute of Medicine.

The topic of the meeting was a proposal by Dr. John Ziegler of the University of California at San Francisco and Dr. Mbonye of the Ugandan military for the conduct of clinical trials of the antiviral drug, AZT. Dr. Robert Fischer of the NIH and Dr. Vulimini Jagdish of the World Bank both expressed interest in supporting the proposal. The World Bank has received approval from the ministry of Finance in Uganda and is ready and able to commit $750,000 to fully fund the proposal. NIH is already supporting a related clinical and epidemiologic study in Uganda by Case Western Reserve University. A follow-up meeting later this month in Uganda will be chaired by Paul Cohn, the A.I.D. health officer designated by the ambassador to coordinate U.S. Government AIDS activities in Uganda.

ZAIRE

SENATOR LEAHY: Last year in our Committee report, we recommended that "any economic assistance to Zaire be channeled through private voluntary organizations." The reason for that was because of the persistent reports of rampant corruption in the Zaire government and human rights abuses by Zairian authorities.

Has that been done? Does any of our economic aid go to the government?

DR. ROSKENS: A.I.D. has fulfilled the Committee's intent of chanelling economic aid to Zaire through private voluntary organizations (PVOs) to the maximum extent practicable, by employing PVOs as implementing agents in numerous A.I.D. projects and across sectors. A substantial portion of the A.I.D. mission's development portfolio, more than 20 percent, supports PVO activities through various modalities: the mission's PVO umbrella project, a majority of health sector activities, and a number of agriculture sector projects.

While A.I.D. does work with the Zairian government on some activities, no cash resources are transferred to Zairian government institutions. Besides PVO activities, A.I.D. dollar funding is channelled through commodity import programs (CIPs) and through private technical assistance contractors, training institutions and suppliers of goods and services.

Diversion of A.I.D. resources has not been a problem as a result of the Zaire mission's strict monitoring of all resource flows, combined with regular audits -- on average three a year. Local currency generations from P.L. 480 assistance and CIPs are not programmed to the Government of Zaire's budget or to government-managed projects; rather, local currency generations pay for counterpart costs in A.I.D. projects and thus can be carefully tracked.

PHILIPPINES--MAI PLEDGES AND PURPOSES

SENATOR LEAHY: Last year we approved $160 million for the Philippine "Multilateral Assistance Initiative." In the Committee report we went into great detail about how those funds should be used. We particularly stressed the importance of environmental protection and population control.

What is the total amount of funds pledged by all donors for the MAI and for what purposes?

DR. ROSKENS: The Tokyo Consultative Group meeting in July 1989 included participants from 19 countries and 6 international development and financial organizations. The donors pledged approximately $3.5 billion to support the reform objectives and program of the Philippine government. At the Consultative Group meeting, the Philippine government presented the donors with a paper setting forth its reform objectives and program. This document is the basic framework within which donors have and will develop their individual assistance plans. In the case of the U.S., our FY 1990 contribution of approximately $160 million will go to support the following activities:

First, approximately $25 million under the Philippine Assistance Program Support Project will support feasibility studies aimed at addressing constraints to private sector led growth and the generation of employment and economic opportunity. This project will also support design and engineering of MAI projects, environmental assessments, pre-investment assistance for private sector MAI projects, and assistance for the Philippine government coordinating committee for the MAI.

Second, approximately $30 million under the Natural Resources Management Program will develop appropriate measures to support GOP efforts to implement policy changes to manage more effectively the natural resources base for sustainable economic growth, particularly in the areas of forest management and wood products

production and processing. Over the life of this program, we anticipate support for a debt for environment swap of up to $25 million. Beyond important forestry-related efforts, we are seeking to identify broader environmental activities. Possible areas of focus include water pollution and toxic waste disposal.

Third, approximately $34 million for Mindanao Area Development will finance infrastructure and related private and public services to support private sector development and expanded employment opportunities in the general vicinity of General Santos City in Mindanao.

Fourth, approximately $40 million under the Private Enterprise Policy Support Program will provide cash transfer assistance linked to reforms improving the policy and institutional environment for broadly-based sustained growth led by the private sector.

Fifth, approximately $30 million for a capital projects funding facility will support private sector efforts to improve telecommunications and/or power service in areas of the country where their absence is a constraint to open market development.

MAI--PROGRESS, ENVIRONMENT, AND POPULATION

SENATOR LEAHY: What has been done so far? How much of our $160 million has been disbursed, and what can we expect in the way of funding for environment and population activities in the Philippines?

DR. ROSKENS: Eleven million dollars of MAI funds have already been obligated under the Philippine Assistance Program Support Project. Contracts are being put into place, and expenditures and related disbursements are expected to begin in the next few months. This activity will support feasibility studies aimed at addressing constraints to private sector led growth and the generation of employment and economic opportunity. It will also support design and engineering of MAI projects, environmental assessments, pre-investment assistance for private sector MAI projects, and assistance for the Philippine government coordinating committee for the MAI.

The environment remains a high priority area in our Philippines program. In FY 1990, approximately $30 million under the Natural Resources Management Program will develop appropriate measures to support GOP efforts to implement policy changes to manage more effectively the natural resources base for sustainable economic growth, particularly in the areas of forest management and wood products production and processing. Over the life of this program, we anticipate support for a debt for environment swap of up to $25 million. Beyond important forestry-related efforts, we are seeking to identify broader environmental activities. Possible areas of focus include water pollution and toxic waste disposal.

In 1989, A.I.D. and the Philippine Department of Health collaboratively developed the $62 million five year Family Planning Assistance Project (FPAP), which will be inaugurated this fiscal year under our regular assistance program as a follow-on to earlier population activities. This project, which will be inaugurated this fiscal year, will enhance the ability of the public and private sectors to deliver family planning services.

MAI--PVOS

SENATOR LEAHY: We also said that not less than $20 million of the MAI should be channelled through private voluntary organizations and cooperatives. Is that being done?

DR. ROSKENS: As indicated in the 1990 Appropriations Bill, A.I.D. is seeking to channel through indigenous and United States private voluntary organizations and cooperatives not less than $20 million of the funds appropriated under the MAI and of the Development Assistance funds appropriated and allocated for the Philippines. Indeed, A.I.D. is pleased to work closely with the highly developed and generally well-managed private voluntary organization community in the Philippines with both our MAI and regular assistance programs. Under our combined regular and MAI assistance programs, in FY 1990, we plan to provide over $25 million for private voluntary organization and cooperative programs in the Philippines. This is more than twice the levels of such assistance in either FY 1988 or 1989.

USAID/PHILIPPINES MANAGEMENT CAPABILITY

SENATOR LEAHY: This year you are asking for another $200 million for the next installment of the MAI. Can you sensibly handle this amount of new money in the Philippines without it being wasted or stolen? What specific steps are being taken to strengthen A.I.D.'s management capabilities and staff resources in the Philippines?

DR. ROSKENS: We are taking every measure possible to guarantee that our assistance is used effectively and for appropriate purposes. Our Mission staff has done a commendable job of overseeing the integrity of our program, which at its current level constitutes one of the highest dollars per U.S. direct hire ratio in world. Recently, we have obtained approval for five new A.I.D. positions we had been seeking. We are making every effort to fill these as quickly as possible, in order to assure continued effective oversight of our program.

Furthermore, a reorganization has taken place in which a new office has been created to focus more attention on the private sector; environmental and natural resources activities have been consolidated; and two staff offices have been combined to facilitate programming, budgeting, and project design. Within the Mission, authority has been devolved and decentralized to the most effective levels possible in order to improve accountability and work flow procedures. A computerized project management tracking system has been put in place, utilizing updated project work plans and the use of performance benchmarks.

In addition, new assistance modalities such as sector support are being increasingly utilized or proposed in areas such as Child Survival and Natural Resources Management. These help move resources more quickly and effectively in support of Philippine development, especially at the sector and macroeconomic policy levels. The A.I.D. Mission is also exploring with the Philippine government, Build-Own-Operate, Build-Own-Transfer, and other turn-key schemes for infrastructure, with a concentration on larger activities. Recently, for example, the government agreed to streamlined procedures for infrastructure activities in Southern Mindanao. Such approaches will help to move resources more

efficiently and with less need for detailed Philippine government oversight.

BIFAD

SENATOR LEAHY: Last year in the Committee report we urged A.I.D. to commit not less than $10 million over three years for a new Collaborative Research Support Program. It would be coordinated with BIFAD and focus on sustainable agriculture and natural resources management. What is being done?

DR. ROSKENS: The Bureau for Science and Technology has assumed leadership for developing a program in sustainable agriculture in collaboration with BIFAD. A detailed plan for the program will be developed during FY 1990 and early FY 1991. Based on the approval provided by BIFAD, A.I.D. is currently negotiating an amendment to its cooperative agreement with the National Research Council (N.R.C.) of the National Academy of Sciences who will direct the planning process. N.R.C. has the unique ability to mobilize quickly the broad range of interests and expertise required to make recommendations for this kind of research program.

A.I.D.'s objectives for the program in sustainable agriculture include:

- development of better interdisciplinary research capabilities among the social, ecological, and agricultural sciences;
- development of program components that are currently lacking or under-represented in the portfolio, e.g., integrated pest management, management of soil ecology and cultural practices to enhance nutrient cycling and to control erosion and pests, and research and development on natural resource policy and socio-economics;
- integration of appropriate component projects within the current portfolio to enhance their capabilities for sustainable agricultural research and development; and
- to make sustainable agriculture the focus of the overall agricultural program.

During FY 1990, A.I.D. intends to commit $700,000 to the planning process. In FY 1991, $1,846,000 are budgeted to support the implementation of the program.

STUDENT EXCHANGES

SENATOR LEAHY: Last year we earmarked $20 million for the Central American Scholarship Program. This program, started by Senator Kasten, gives disadvantaged students a chance to study at community colleges in the U.S. I am told this program is a big success. What would you think about starting something similar for African students? How should such a program be structured and with what goals?

DR. ROSKENS: As you are aware, the Central American Scholarship Program (CASP) was developed in response to human resource recommendations of the 1984 National Bipartisan Commission on Central America (NBCCA). The NBCCA was concerned with strengthening efforts to achieve peace and stability in the Central American region and felt that training disadvantaged students in the U.S. would improve their skills and win new friends for the U.S. The program also offers the participants an opportunity to

"experience America" through closer ties to the communities in which they are studying.

In considering the appropriateness of such a model for Africa, it is important to bear in mind the genesis of the CASP activity and to recognize the distinct relationship -- geographic, economic and political -- that the U.S. has with Central America.

These factors aside, I think A.I.D. should make full use of U.S. university and community college resources and other means to address the training needs of underserved African populations and enable them to "experience America." However, rather than further taxing the current placement and support mechanism for CASP, or developing a new project for this purpose, I prefer to explore the ability of our existing human resource development projects in Africa to provide the necessary training.

One of the strategic objectives of A.I.D. assistance under the Development Fund for Africa is to develop the potential for long-term increases in productivity, a key component of which is training. A.I.D.'s human resource development activities in Africa provide training in management and technical and scientific fields to increase local self-sufficiency; improve the effectiveness of development policies, programs and institutions; support private enterprise development and private sector employment; meet the training needs of women to increase their participation in socio-economic development; and prepare disadvantaged South Africans for future leadership and management. One of the goals of our training programs in Africa is to strengthen regional and national African training institutions through linkage arrangements with U.S. institutions. Currently, individual skills training is a component of the A.I.D. program in 34 African countries, with an estimated FY 1990 funding level of $44 million.

MICROENTERPRISE

SENATOR LEAHY: Last year we recommended $75 million for the microenterprise loan program. We also said the loans should be less than $300 each and for the poorest people who would not otherwise have access to credit.

I just received your report on the microenterprise program, which is quite helpful. However, I am concerned that some of these loans are much larger than the $300 the Congress recommended as the upper limit.

Is it true that you have awarded loans for more than $5,000 and that some were above $10,000? How many and for what? How does that meet the definition of "microenterprise," and how does it square with our intent that this program be for the benefit of the poorest people and that loans be for less than $300?

According to your report, only $6 million of the $33 million in loans last year went for loans of less than $300. Why so little?

DR. ROSKENS: Since the legislation was passed, A.I.D. has increased the focus of its microenterprise activities on very small loans. This is evidenced by 1) a near doubling in the amount of funds obligated or expended for loans to microenterprises from 1988 to 1990 and 2) a current average loan size of between $300 and $400 which is considerably lower than what was found only a year before. This represents substantial progress toward making more loans to the very poor.

Nearly two-thirds of the loans made with A.I.D. funds in 1988 and 1989 for the microenterprise program were smaller than $300 (88,000 in the two years combined). The total dollar amount of these loans was $5.5 million in both FY 1988 and FY 1989. We would like to do more, but are facing certain constraints: 1) a dearth of strong institutions capable of and prepared to make large numbers of small loans; 2) lack of laws and regulations to help the poor receive fair treatment; and 3) the need among a large number of the target population (very poor microentrepreneurs with no or very few employees) for loans above $300, given the costs they face, particularly in Latin America, where A.I.D. microenterprise lending is greatest.

With regard to loans in the $5,000 to $10,000 range for the microenterprise program, A.I.D. does indeed make such loans. However, because of the legislative focus on very small loans, A.I.D. missions are increasingly excluding larger loans in their reporting on microenterprise activities. Larger loans are often used to purchase equipment that enables a tiny business to transform itself into a larger, more productive operation that can offer jobs and incomes to an increasing number of people. Such loans may make important contributions to the economic well-being of poor communities. Although our current A.I.D. data base does not yet have the capacity for recording data on the sizes of individual loans, it appears that loans in the $5,000 and above range are the exception.

A.I.D./EXIM BANK AND MIXED CREDITS

SENATOR LEAHY: What role does A.I.D. play in combatting the use of mixed credits by our competitors in their aid programs?

DR. ROSKENS: A.I.D. has played a key role in shaping and implementing the Administration's mixed credit policy. As you know the Economic Policy Council (EPC) of the Cabinet presented its recommendations to Congress in September 1989 on the Bush Administration's position on mixed credits. The EPC recommended that the Administration take a more pro-active approach toward the use of mixed credits in support of our negotiations at the Organization for Economic Cooperation and Development. The U.S. negotiating position is to seek the total elimination of mixed credits. A.I.D. and Eximbank are working together to implement the EPC's recommendations.

SENATOR LEAHY: What mechanisms have been put in place to improve Agency cooperation in the mixed credit area, specifically with Eximbank?

DR. ROSKENS: The EPC's recommendations give A.I.D. a mandate to cooperate with the Eximbank to use mixed credits more aggressively particularly in the "spoiled markets" of the Pacific Rim and North Africa. A.I.D. will do its best to use existing budgetary resources in combination with Eximbank's grant "War Chest" monies to do mixed credits in these countries. A.I.D. and the Eximbank have recently announced a $500 million joint program to finance development projects in Indonesia, Pakistan, Philippines and Thailand. This program will use mixed credits in each country. Eximbank, however, has agreed that A.I.D. will apply its development criteria to ensure that only sound development projects are supported.

SENATOR LEAHY: The Administration has stated that there will be a cooperative effort between Eximbank and A.I.D. to combat the unfair practice of mixed credits from the European countries and Japan. What is the mechanism for this cooperation and is it adequate?

DR. ROSKENS: Eximbank and A.I.D. are looking to support mixed credits in countries which have developmental impact yet can inflict costs on other donors, so as to bolster our negotiations at OECD to eliminate mixed credits.

The U.S. Agency for International Development (A.I.D.) and the U.S. Export-Import Bank (Eximbank) are jointly developing a $500 million program to finance developmentally-sound capital projects in Asian markets. This program is limited to "spoiled" markets where other governments already are providing extensive trade-distorting tied-aid finance. Most important, A.I.D. will select investments that meet development objectives. There will be no diversion of existing foreign aid resources either between countries or within country programs and no development assistance funds will be used for this program.

The cooperative effort is based on three key considerations:

(1) The opportunity to obtain additional resources from Eximbank for A.I.D. development projects justified going forward with this action which, however, did not necessarily represent a policy change or shift in A.I.D. priorities. Only sound development projects consistent with A.I.D. country priorities would be financed.

(2) Only non Development Assistance (DA) would be used to jointly finance projects with Eximbank. The Economic Support Funds (ESF) and Special Assistance Initiative (SAI) money is already programmed for economically sound infrastructure development and the additional Eximbank resources would be programmed only in accordance with A.I.D. development criteria.

(3) The program would involve the use of Philippines SAI and Pakistan and Indonesia ESF under A.I.D. field mission oversight. In Thailand only Eximbank resources would be used for projects in this program. The program will not involve DA for mixed credits..

CAPITAL PROJECTS SPENDING

SENATOR LEAHY: What does A.I.D. presently think about the share of its spending on capital projects? Is A.I.D. expanding in this area.

DR. ROSKENS: Over half of A.I.D.'s budget from 1961 - 1973 was devoted to capital or infrastructure development projects. Today less than 6 percent of A.I.D.'s total budget is devoted to this purpose. I believe that 6 percent is not a lot and that there can be great development benefits from financing capital projects. Much of the justification for A.I.D. moving out of the capital projects area was premised on the Multilateral Development Banks (MDB) taking on a greater and greater share of that business on a worldwide basis. In recent years, however, the MDB's share of the capital projects business has declined as institutions like the World Bank have become more involved in policy based or sectoral lending, particularly to support market based reforms in high debt countries.

Regarding your second question as to whether we are expanding in this area, the trend over the past several years has seen more

contraction of A.I.D.'s budgetary resources allocated to capital projects. I think we ought to look at this. In addition, we have been asked by the Economic Policy Council, to see how it can play a greater role in this area in support of our negotiations on mixed credits at the Organization for Economic Cooperation and Development. Our new joint mixed credit program with Eximbank will support developmental capital projects primarily in the telecommunication, power, transport and construction sectors.

SENATOR LEAHY: Has A.I.D. initiated efforts to identify suitable capital infrastructure projects in A.I.D.-supported countries which would be included in A.I.D.'s program? If so, which countries and what sectors?

DR. ROSKENS: In recent years, A.I.D, has tended to support more capital infrastructure projects in countries (Egypt, Pakistan, Philippines) where we have projectized Economic Support Funds (ESF). We have also, however, used Development Assistance funds to support primarily rural water and agricultural projects on a worldwide basis. More recently, Development Fund for Africa monies have supported a number of transportation projects in Southern Africa.

Certainly the new mixed credits program with Eximbank will also support developmentally sound capital projects in Indonesia, Pakistan, Philippines and Thailand (as described above).

SENATOR LEAHY: Given the needs in Eastern Europe for modernization of capital equipment, what percentage of U.S. assistance will be in support of such equipment acquisitions during the next three years?

DR. ROSKENS: I believe the current SEED (Support for East European Democracies) Act provides for a Trade Credit Insurance Program which A.I.D. will use to reinsure up to $200 million of Eximbank short term credits to the Polish private sector. This $200 million authority will be available to support the export of U.S. capital equipment to Poland. It represents about 21 percent of the total $938 million aid package authorized by the SEED Act. Please keep in mind, however, that this A.I.D. trade credit program is only for Poland.

It is my understanding that the Eximbank is open to most other East European countries for all programs. Also I understand they have set no limit on the direct credits or guarantees they will provide. They could support, in theory, billions of dollars of U.S. capital goods exports to Eastern Europe under their existing programs.

POPULATION: CONTRACEPTIVE SUPPLIES

SENATOR LEAHY: I am told that A.I.D. plans to reduce its procurement of contraceptive supplies over the next two to three years. This concerns me greatly, because some programs in Latin America and sub-saharan Africa are having trouble obtaining the needed contraceptive supplies which are essential for the services they provide. [Attached is a letter dated February 5, 1990 to then Acting Administrator Edelman signed by several Members of Congress, which calls attention to this issue.]

In this time of acute population pressure and increasing AIDS crisis, why is A.I.D. cutting back on the procurement of these

essential supplies? What were the purchase funding levels for contraceptive supplies for FY 1989, FY 1990, and what is the expected purchase level for FY 1991? What action was taken in response to the letter referred to?

DR. ROSKENS: Currently, A.I.D. supplies approximately 70 percent of all donated contraceptive supplies to the developing world. Funding for contraceptives continues to rise: A.I.D. invested about $58 million during FY 1989 and plans to obligate about $65 million in FY 1990.

In response to the nine Members of Congress who wrote to Mr. Edelman concerning Mexico, he pointed out that funding for contraceptive supplies in Mexico is increasing. A.I.D. provided $1.3 million for contraceptives shipped to Mexico in FY 1989, and is providing $2,825,849 for contraceptives being shipped in FY 1990. In addition, A.I.D. plans to provide about $4,880,000 for contraceptives to be shipped to Mexico in FY 1991. Despite A.I.D.'s increased levels of funding, the Government of Mexico has decided to procure additional contraceptives directly. A.I.D. is facilitating discussions with A.I.D.'s suppliers to encourage this independence.

A.I.D. is exploring different ways of ensuring a continuous supply of contraceptives, including alternative sources of donor funding for contraceptives and the feasibility of local procurement or production.

In Bangladesh, currently the largest recipient of A.I.D. contraceptives, the government is using a World Bank loan to procure contraceptives through specialized agencies of the UN and the international market. Several recipients of A.I.D.-procured contraceptives are negotiating with our vendors to purchase contraceptives directly and others are tendering bids on the international market as a way to cut costs.

While A.I.D. remains by far the leading donor of contraceptives, its comparative advantage in support of family planning and AIDS prevention programs lies not in the purchase and supply of contraceptives but in the area of logistics management. Since 1986, A.I.D. has greatly expanded its logistics management assistance to countries throughout the developing world.

We are continuing to look at how A.I.D. can most efficiently and effectively help in meeting the rising demand for contraceptives. Our long-term goal in each country is to commercialize the supply of contraceptives, so as to free resources for other development activities.

Congress of the United States
Washington, DC 20515
February 5, 1990

Hon. Mark L. Edelman,
Acting Administrator,
A/AID, room 5942,
Agency for International Development,
Washington, DC, 20523-0001

Dear Mr. Edelman: In the course of a recent visit to Mexico, one member of our party had an opportunity to observe some family planning and health activities supported by AID in that country. We all had the opportunity to discuss the family planning program with Mexican officials.

It was clear from the observation of the Member and a staff assistant, that AID can be justly proud of its role over the past several years in helping Mexican Government and private agencies develop an expansive, culturally sensitive family planning program. We share the concern of Mexican officials, however, that these gains are now being jeopardized by recent AID steps to reduce funding levels for the contraceptive supplies which Mexican agencies need to implement for their family planning programs.

Your AID Representative in Mexico, Jerry Bowers, reported that these reductions were due to severe shortages in AID's overall population account, and AID's consequent need to apportion scarce resources among several high-priority countries. While we agree that AID is faced with difficult choices in these days of tight funding, we must also note that joint U.S. and Mexican interests are inextricably linked in the population area. Indeed we can think of no other activity in which U.S. support for Mexico produces returns of such significant mutual benefit as they do in family planning.

We would be grateful if you would look into this issue at your earliest convenience to ensure that AID provides sufficient contraceptives to meet Mexico's needs. We view this issue as of the highest priority.

Sincerely,

Kika de la Garza, Chairman; Richard A. Gephardt, Majority Leader; Ronald D. Coleman; Sam Gejdenson; Lawrence J. Smith; Bill Richardson; Peter Hoagland; Albert G. Bustamante; Solomon P. Ortiz, Members of Congress.

POPULATION: CONTRACEPTIVE SERVICES

SENATOR LEAHY: What is A.I.D. doing to make sure that population funds are being spent to provide contraceptive services to couples in need, and what standard measure of efficiency does A.I.D. use to calibrate the cost per couple served?

DR. ROSKENS: A.I.D. has always focused on the delivery of family planning services. An important assumption for A.I.D.'s population program has been that if high quality, voluntary services are made available, people will use them. A.I.D.-funded surveys and other research indicate that there is considerable demand for family planning services.

With the growing acceptance of family planning and the resulting increase in demand for family planning services A.I.D. and the institutions it collaborates with are using a variety of analytic and programmatic approaches to target scarce population resources to underserved groups. The analytic approaches include the analysis of national demographic and health surveys, client profiles, and service statistics. These tools have permitted A.I.D. family planning programs to establish or relocate clinics and service sites on the basis of demographic and service data. A.I.D. programs have also worked to reach underserved groups by establishing alternative distribution systems for services including household and commercial distribution.

A.I.D. is working with the scientific and technical community in the international population field to improve our ability to measure program effectiveness and program cost. Although A.I.D. uses no single measure to determine program efficiency, in order to make relative comparisons between programs A.I.D. has found two measures useful. These are cost per couple year of effective

protection (proper use of contraception) and cost per new or continuing acceptor.

At A.I.D.'s request a task force of private and international organizations working in the population field has been working to develop standard measures from which to derive program costs, count clients and calculate method conversion factors. New scientific evidence on the efficacy of various methods suggests that the conversion factors for each method, i.e., the number of couple years of protection attributed to each method, be revised.

QUESTIONS SUBMITTED BY SENATOR DANIEL INOUYE

TUNISIA

SENATOR INOUYE: Dr. Roskens. last year the Administration provided Tunisia with $12,446,000 from the Economic Support Fund account. Tunisia is in the midst of a difficult restructuring of her economy due to the agreements implemented with the IMF and the World Bank as well as an increased emphasis on private enterprise as a means of increasing economic growth. Despite Tunisia's undertaking of this economic restructuring, your FY 1991 request for ESF is $1.6 million dollars less than the amount you provided in FY 1990.

Why does the Administration propose to reduce the ESF funding for Tunisia?

DR. ROSKENS: In a time of scarce budgetary resources, combined with the many competing demands on our assistance budget, especially for Eastern Europe, we simply had to reduce some existing programs in the FY 1991 request. At the requested levels, we want to stress that no programs will be seriously disrupted and that new initiatives, including those for the private sector, will take place.

SENATOR INOUYE: The twin disasters of drought and locust infestation have reduced Tunisia's grain yield severely. In 1988 the crop averaged approximately 300,000 tons which is a decrease from the 1987 yield of 1,900,000 tons. It is my understanding that the 1989 crop yield was expected to be approximately 400,000 tons. This decreasing crop yield forces Tunisia to divert resources from other sectors of the economy to import grain. Tunisia also faces a large debt problem with the total debt service in 1988 being approximately $1,000,000,000.

How does A.I.D. propose to help Tunisia cope with this large debt burden?

DR. ROSKENS: With ESF levels running between $10-12 million annually, the A.I.D program in Tunisia is small with no activities aimed directly at debt relief. However, we have lined up the A.I.D. program in Tunisia behind its overall structural adjustment program and are providing technology-building assistance to help Tunisia transform itself into a market-driven, export-oriented economy. We want to see Tunisia adopt and implement appropriate macroeconomic policies so that it can become a foreign exchange earner and, therefore, better cope with its debt burden. In addition, to help address immediate disaster related needs, Tunisia receives assistance under P.L. 480 Title I and Section 416, currently running at about $35 million a year for FYs 1989-1990.

INTERNATIONAL COUNCIL OF NURSES

SENATOR INOUYE: Dr. Roskens, nurses comprise the largest group of healthcare professionals worldwide but I understand that A.I.D. has been slow in taking advantage of their policy expertise. For the last two years, I have urged that A.I.D. begin to take advantage of the skills provided by nursing professionals.

Can you tell me what progress has been made in establishing a means by which A.I.D. can work collaboratively with the International Council of Nurses to ensure that professional nursing expertise is used appropriately in both developing and implementing international health care programs?

DR. ROSKENS: In many developing countries, nurses are poorly trained, undersupervised, and often have a very low status. To address these problems, most training programs are country-specific to ensure the transfer of appropriate and relevant skills.

In 1989, more than 100 A.I.D. health and child survival projects reported the inclusion of training activities to strengthen and upgrade the technical skills of nurses. When A.I.D. staff met with Ms. Constance Holleran, Director of the International Council of Nurses (ICN) in November 1989, we exchanged key information on country-specific opportunities for collaboration. Ms. Holleran was urged to make contact with specific A.I.D. missions in countries where ICN is active and explore the potential availability of A.I.D. bilateral funds for training nurses and/or scholarships in the U.S. A.I.D. staff have also held meetings with the Deans from two of the three U.S.-based WHO Collaborating Centers of Nursing.

Some examples of country-specific activities are:

--PRITECH, A.I.D.'s project to provide technical assistance for primary health care programs, has devised a nursing curriculum that is being adapted and used in several countries in the Sahel. Nurses and nurse midwives are being trained in case management of diarrheal diseases in almost all countries where the project operates.

--The HEALTHCOM Project sponsored the planning and implementation of two workshops on health communication and social mobilization for faculty of 16 nursing schools in the Shaba region of Zaire. Workshops included technical reviews, sessions on interpersonal communication skills, and hands-on training.

--In Jordan, the Primary Health Care Nursing Development Project was designed to help upgrade the status and skills of nurses. A Nursing Institute of Specialized Studies was opened to provide nurses instruction in primary health care and as trainers. The Institute will continue to function and train nurses after A.I.D.'s involvement in the project has ended.

A.I.D has also supported the training of 61 nurses in U.S. colleges and universities over the last three years and works closely with the American College of Nurse Midwives in its population activities in various activities. A.I.D. continues to recognize the important contributions made by nurses in the delivery of health services to improve maternal and child health.

MAI--STREET CHILDREN

SENATOR INOUYE: Dr. Roskens, Childhope, the international advocacy movement on behalf of street children, estimates that there are 1,200,000 children in the Philippines who are living and/or working on the streets in urban areas throughout the Philippines. In metro Manila, the number of street children are estimated at between 50,000 and 75,000 with many of them victims of sexual

exploitation and involuntary servitude. I understand that in Manila, 87 percent of all street children receive no government or NGO services. In approving the MAI last year, the need to deal with this appalling situation was stressed.

In the first year of the MAI's operation, what progress has been made in providing resources to alleviate the plight of the street children in the Philippines?

DR. ROSKENS: Unemployment and poverty are among the leading factors behind the large number of street children in the Philippines. We are addressing the root causes of this problem through our support for broadly-based growth that generates employment opportunities, thereby reducing poverty.

Furthermore, the plight of Philippine street children is being addressed under our regular assistance program. A.I.D. supports the efforts of several organizations to provide street children with increased access to social services, health care, and educational opportunities. A.I.D. currently provides $1.4 million in grants to the Educational Research and Development Assistance Foundation, The Salesian Society, Inc., and the Pearl S. Buck Foundation for their efforts on behalf of Philippine street children.

MAI--ENVIRONMENT AND NATURAL RESOURCES

SENATOR INOUYE: A.I.D.'s FY 1991 Congressional Presentation document for Asia, Near East, and Europe states that one of the areas the MAI will fund are "continued efforts in the environment and natural resources sectors." Last July, when donors for the MAI met in Tokyo, barely three paragraphs in the final framework document dealt with the environment. If the Administration wishes to have the MAI funded at the level it wishes, more attention will have to be spent on the protection of the environment.

What efforts have been made to undertake debt for nature swaps as a means of protecting the environment and reducing the Philippines debt which would increase the benefits of this program?

What percentage of the MAI was allocated to efforts to implement natural resource and environmental management.

DR. ROSKENS: In June 1988, the World Wildlife Fund received Philippine Government approval for up to $2 million for a debt for nature swap. A.I.D. provided $45,000 to WWF to help purchase a first tranche of debt in 1989 and an additional contribution is under consideration.

In FY 1990, approximately $30 million under the Natural Resources Management Program will develop appropriate measures to support GOP efforts to implement policy changes to manage more effectively the natural resources base for sustainable economic growth, particularly in the areas of forest management and wood products production and processing. Over the life of this program, we anticipate support for a debt for environment swap of up to $25 million. Beyond important forestry-related efforts, we are seeking to identify broader environmental activities. Possible areas of focus include water pollution and toxic waste disposal.

MAI--SMALL AND MICROENTERPRISE

SENATOR INOUYE: One means of facilitating broad-based economic growth is to channel resources into small and microenterprise development programs in the Philippines. By providing credit to the smallest businesses owned by the poorest people, there is excellent

opportunity to provide grass-roots economic growth and development.

What portion of MAI funds have been channeled into small and microenterprise development programs in the Philippines?

DR. ROSKENS: None of our MAI funds are being directly channeled to small and microenterprise development activities. However, the MAI will address policy constraints to private sector led growth, which will benefit businesses of all sizes.

In addition, under our regular assistance program, our small and medium enterprise development project has provided support for the growth of labor intensive, small and medium enterprises outside Metro Manila, and has focussed on the food processing, metal-working, and handicraft industries. Under our PVO Co-Financing and Enterprise in Community Development programs, A.I.D. channels support through non-governmental organizations for microenterprise development.

Our $13 million Small Enterprise Credit Project, which began in FY 1989, provides assistance to increase the ability of private development banks to lend to small and medium enterprises. Beginning in FY 1991, our DA-funded Informal Sector Reform Project will provide a total of $5 million to provide technical assistance, training, and commodities to help identify and design reforms to remove impediments to growth of enterprises in the informal economy.

RESOLVING FOREIGN ASSISTANCE PROBLEMS

SENATOR INOUYE: A spate of recent reports on future directions for U.S. foreign assistance points to a growing disenchantment with the current A.I.D. program. Critics suggest that principal problems include (1) fundamental flaws in the institutional structure and incentive systems within the Agency, and (2) A.I.D.'s inability to effectively broker what it views as priorities for development against pressures in Congress and among various interest groups to move in widely varied, and sometimes conflicting, directions.

How accurate do you think these criticisms are, and how do you respond to those critics who suggest that nothing short of a dramatic restructuring and redirection of the Agency will resolve these underlying problems? What less severe steps might be taken to resolve these problems?

DR. ROSKENS: Given my relative newness to A.I.D., I am not yet in a position to state whether a "dramatic restructuring" of A.I.D. is warranted. I have perceived, however, the mindset to which you refer: the frustration and ineffectiveness in trying to deal adequately with the many internally and externally mandated and often conflicting directions imposed on our foreign aid program.

I will resist the temptation to move too precipitously to address these problems. As I become more familiar with the Agency and its programs, these problems will be cast in their proper context. I want to make sure I understand each issue in its entirety before considering possible solutions.

I am looking to many informed sources to help me become better acquainted with the foreign assistance program and how it can become more relevant and effective. These include the Congress, other agencies within the executive branch, PVOs, universities and the U.S. private sector. We all have a stake in the U.S. foreign assistance program and should have a voice in setting its future course.

A.I.D.'S PROGRAM FOCUS - STRENGTHS AND OBSTACLES

SENATOR INOUYE: A.I.D. currently faces a rather austere budget climate, in addition to pressure to improve the performance,

accountability, and impact of its activities. Under these conditions it seems a logical step for A.I.D. to better focus its program and direct its scarce resources in a manner consistent with the comparative strengths of U.S. bilateral assistance.

How would you define the comparative strengths of U.S. bilateral aid programs? To what extent do current Agency programs and projects focus on these strengths? Do you plan to make any adjustments in the current portfolio of A.I.D. programs and projects to stress these strengths to a greater degree? How, specifically? What obstacles exist to making such changes?

DR. ROSKENS: From what I've seen thus far, A.I.D. does indeed have "comparative strengths" as one of the leading agents of development assistance. Specifically, A.I.D. has established an enviable record of achievement, expertise and professionalism around the world that is widely admired by the development community.

Secondly, A.I.D. has an institutional memory and program capability in more than 100 countries and in all sectors on which we can draw as we face new challenges. One of the key distinguishing features of A.I.D. as a development assistance donor is its on-the-ground field staff. I believe this not only enables A.I.D. to better focus programs through informed day-to-day dialogue with host country officials, but also serves as a valuable information resource for other non-resident donor programs.

These of course, are preliminary observations. I am certain that my personal thoughts on A.I.D.'s strengths and weaknesses will grow considerably over the coming months and years.

WILL NEW DEMOCRACIES CAUSE A SHIFT IN A.I.D. SCOPE?

SENATOR INOUYE: Another nagging issue is how the United States defines the goals of foreign assistance. With the euphoria over democratization in Eastern Europe and Central America, it appears that supporting fledgling democracies has become the principal focus.

What does this shift imply for the broader scope of A.I.D. activities outside these regions, especially for the poorest countries? Does this shift reflect a new agenda for foreign assistance generally, given the dissipation of Cold War competition in the Third World?

DR. ROSKENS: While I cannot speak for all world leaders, not even our own Secretary of State, I would venture the opinion that the attractiveness of supporting political and economic democratization in Eastern Europe will probably cause Western leaders to divert their attention from the long-term development needs of Africa--and other parts of the world--in the short and medium run. This probably is unavoidable, given the pace of change in Eastern Europe and how immediately the West's strategic interests are affected by events there.

Some people would argue that investments in solidifying progress in Eastern Europe could, over time, free up significant U.S. resources now given as military assistance and Economic Support Fund assistance to Western European and other countries as part of a policy of containment. How fast these dividends can be realized and how they should be used are open questions at this time.

As for current A.I.D. program shifts, in FY 1990, our making funds available for Poland and Hungary squeezed the availability of ESF funds for Africa and, to a lesser extent, other regions. It did not affect the level of Development Assistance resources made available for Africa, however, because of the special nature of the

Development Fund for Africa. There was some reshuffling of DA allocations between Asia, the Near East, Latin America and the Caribbean. Our FY 1991 request for Eastern Europe is basically additive to on-going programs.

In the future, Development Assistance for A.I.D.'s other, long-term development programs should not be reduced as a result of the U.S. response to events in Eastern Europe. Indeed, our support for long-term development could even be increased if the hoped-for security assistance dividends are reinvested in the foreign affairs budget.

INTEGRATING RELIEF MANAGEMENT WITH LONG TERM DEVELOPMENT

SENATOR INOUYE: Integrating emergency management and relief activities with research and the preventive aspects of long-term development is difficult, as illustrated by A.I.D.'s recent experience with locust and grasshopper outbreaks in Africa and the Middle East. A.I.D.'s work showed a troubling lack of economic justification, technical competence, and impact assessment.

How might the Agency better blend its various roles? How might it prevent problems like those listed above from recurring? How might A.I.D. build Africans' capacity to alleviate some of these problems?

DR. ROSKENS: While there may have been some concerns about the adequacy of A.I.D.'s early response to the recent locust and grasshopper threat, I understand the Agency played a significant role in overcoming this threat. Working with affected countries and the donor community, A.I.D. has been applauded in its major role in combatting locust plagues and grasshopper outbreaks in Africa and the Middle East. Hundreds of millions of dollars of agricultural production were at risk with potentially devastating impact on human lives, but, due to timely action, crop losses were minimal. U.S. action was coordinated very effectively in A.I.D.'s Desert Locust Task Force.

As to blending our various roles, we recognize that relief aid and development assistance represent a continuum. Our Office of U.S. Foreign Disaster Assistance is reviewing with our geographic bureaus more-specific ways that development assistance can help to preclude or mitigate likely disasters. Disaster prevention and mitigation are pursued by introducing risk analyses and influencing investment decisions; by training host country officials in contingency planning and disaster management; and by improving early warning of natural events which cause disasters. In the case of locust plagues, A.I.D. is cooperating with other donors, coordinated through FAO, in the planning for an international task force to predict and control outbreaks by eliminating the pests from their remote Saharan breeding grounds.

With regard to assisting Africans, A.I.D. supports general disaster training and host country institutional development of early warning systems. Additionally, A.I.D. continues to provide specialized technical and financial assistance which, for example in the case of insect pests, is geared to strengthening the local crop protection services.

QUESTIONS SUBMITTED BY SENATOR ROBERT KASTEN

ELEPHANTS

SENATOR KASTEN: On page 8 of your prepared remarks, you express opposition to the $2 million earmark for African elephant protection.

One of the largest generators of hard currency in several east African nations is ecotourism. People go to see the wildlife, and spend thousands of dollars per visit. This can generate huge numbers of jobs, energize local economies, support and strengthen local communities. In short, if managed properly, this can be one of the most important opportunities for sustainable development, to say nothing of preserving a nation's and people's heritage.

But that development cannot work if the elephants that attract the tourists are gone.

But elephants represent much more that that. They actually manipulate the environment for good. They dig water holes, they can browse large trees, they are key seed dispersers. Numerous other species depend on the elephant to survive.

In addition, elephants are a key indicator species of the health of the environment.

I suspect that you need to beef up your science capability, because we shouldn't have to point out this link to you. This is not frivolous; it is essential to the sustainable development of much of Africa. It is absolutely unacceptable to this Committee that you continue to delay implementing this program.

Can you tell me specifically when and how these earmarked funds are going to be spent, or will the Committee be required to make a deeper and more detailed earmark in the future?

DR. ROSKENS: A.I.D. has already obligated $1.5 million in FY 1990 for a new African elephant-related project in Tanzania through the African Wildlife Foundation. We plan to obligate at least $500,000 more in elephant-related activities by the end of FY 1990.

These new activities are in addition to our ongoing FY 1990 African elephant-related activities. A.I.D. is spending $10.5 million in FY 1990 for African wildlife management projects which have elephant preservation components.

Here are brief descriptions of A.I.D.'s new FY 1990 African elephant-related activities:

Tanzania Wildlife Management Project ($1.5 million). According to the African Elephant Conservation Coordinating Group (AECCG), Tanzania maintains more African elephants than any other country in Africa. There are approximately 77,000 elephants in six priority management areas. The purpose of this bilateral project is to provide training to the Tanzania Wildlife Department in the development of land use management plans for Tanzania's management areas. The management plans will be the basis for the long-term sustainable management of wildlife in Tanzania. The African elephant is a special concern to be addressed during the development of these management plans.

Niger Park "W" ($250,000). According to the AECCG, the Park "W" area maintains a population of 1,000 elephants and an area totalling 10,230 square kilometers. Park "W" has the largest population of elephants in the West African Sahel. The purpose of the project is to assist the Government of Niger to manage Park "W"

sustainably. Wildlife, plant and socio-economic surveys will be conducted. The project will be implemented through the U.S. Peace Corps.

Cameroon Korup National Park ($300,000). According to the AECCG, this park maintains a population of 100 elephants and has an area of 1,200 square kilometers. The current A.I.D. project is undertaking a biological inventory of park wildlife and vegetation. A.I.D. plans to provide additional support to the project in FY 1990 for the monitoring of elephants within the park. The information will be used to develop a park management plan for the purpose of making sustainable land use management decisions. The project is also exploring alternative sources of game meat and income for rural villages surrounding the park.

Please allow me to clarify my testimony before the Committee. I did not mean to indicate that African elephants are not important. I would agree that ecotourism has been and should continue to be a major foreign exchange earner and that elephant populations have important ramifications for other species of wildlife. However, earmarks can force us to short-cut the planning process, and shift resources from other high priority uses; this could lead to sub-optimal projects.

A.I.D., in concert with the most experienced international organizations (e.g., World Wildlife Fund, African Wildlife Foundation), is addressing African elephant management through: (1) the rational management of critical biodiversity habitats; and (2) the provision of alternatives for sustainable development to rural populations surrounding these habitats.

If these two objectives are not achieved, neither ecotourism nor African elephants will survive. This approach is consist with AECCG recommendations, and A.I.D. is implementing its African elephant-related activities through AECCG member organizations. A.I.D. is also coordinating with other organizations such as the U.S. Fish and Wildlife Service who are addressing shorter-term interventions such as anti-poaching.

PERCENT OF FOREIGN AID "FLOWBACK"

SENATOR KASTEN: For many years, this subcommittee has received testimony from A.I.D. officials that approximately 70 percent of A.I.D. appropriated dollars are returned to the United States through procurement of U.S. goods and services. We always assume that such testimony from your agency is accurate and verifiable.

Through a recent report from the General Accounting Office, we have been given reason to believe the 70 percent estimate is grossly inflated, and that A.I.D. arrived at that percentage based on out-of-date materials using a small sampling and assumptions which do not appear to be supported by factual information.

For its report, the GAO was provided with a copy of a field study authorized by Assistant Administrator Carol Adelman. Her study showed that the actual percentage of "flowback" to the U.S. from Thailand in fiscal year 1988 was 22 percent.

Have studies other than the Adelman study been conducted? If so, have they been mission-specific? If not, why?

DR. ROSKENS: No other studies have been conducted but three mission specific studies are currently being conducted to pursue the same type of project specific expenditure data that was collected and analyzed for Thailand. I believe a consulting team

has already gone out to Jordan, which then will move on to the Philippines and Pakistan. We expect to have a final report on all three countries by July at which time I would be pleased to provide it to you.

SENATOR KASTEN: Is A.I.D. updating its methodology so we can accurately measure the percentage of foreign aid dollars spent on procurement in the U.S.?

DR. ROSKENS: Yes we are taking a look at how A.I.D. calculates the "reflows" to the U.S. from our purchases of U.S. goods and services. That is why we have sent out an additional team to Jordan, Pakistan and the Philippines. We need more data than just the Thailand and GAO studies. We are also seeking answers to how the existing management information systems can be improved to collect this data on a real time basis.

BASIC EDUCATION PHILOSOPHY

SENATOR KASTEN: I know that your involvement in higher education is extensive and spans many years. As you know, basic and primary, perhaps more often than higher education, is a chief focus in developing countries, given illiteracy rates which in many instances hover at around 85 percent.

The Agency's record on basic education has not been great, and what improvements have been made are due in part to strong congressional encouragement. This is notwithstanding the fact that improvements in literacy bring improvements in all development sectors, a claim that few other kinds of assistance can make.

What I would like to hear from you is some acknowledgment that basic education and primary education will remain a priority of the Agency, particularly in Africa and South Asia, where illiteracy is a tremendous problem.

Given this committee's interest in basic education, we want to hear from you about the leadership you will provide to A.I.D. in order to further the progress of basic education programs and projects, particularly in Asia and Africa.

DR. ROSKENS: As an educator I certainly recognize the value of a literate and numerate society. Without these basic skills, social and economic development cannot take place, particularly development based on democratic systems and market economies. I will ensure that basic education remains a priority for A.I.D.

A.I.D. co-sponsored the World Conference on Basic Education For All (WCEFA) held last month in Jomtien, Thailand and provided strong and prominent leadership to help ensure it was successful. The WCEFA is perhaps the most important gathering ever on the topic and involved a remarkable range of national and international leaders in the effort to find effective ways to meet the growing educational needs worldwide. We are proud of our contribution to this important initiative and believe the WCEFA Declaration and Framework for Action provides a constructive basis for cooperation on education reform over the next decade. We are working closely with officials in A.I.D.-assisted countries and with the rest of the donor community to explore next steps for initiatives within this new framework.

The WCEFA mobilization involved the White House, the Department of Education, state and local education administrators, private voluntary organizations, corporations, universities and key

professional associations in addition to A.I.D. A major part of A.I.D.'s strategy is based on professional working relationships with U.S. educators. We must ensure that the reform initiatives we support internationally are consistent with our own national education goals, reform strategies and professional experience.

We are completing a new Agency Strategy for Basic Education. This strategy will, within our current budgetary and management constraints, enable A.I.D. to be more responsive to countries striving to formulate and implement difficult education policy reforms. We are exploring greater use of non-project budget support keyed to necessary policy and management reforms, more flexible mechanisms for supporting education research and assessment and ways to work more closely with other bilateral and multilateral donors in support of comprehensive reform efforts. We will be pleased to brief Congress when the Strategy is complete.

The Agency is expanding its assistance to basic education in all regions. The Africa Bureau is moving rapidly to develop new programs in Mali, Ghana, Guinea, Lesotho, Swaziland and Uganda. Africa Bureau is using policy-linked program support in combination with more traditional technical assistance and training to work with countries facing both short-term economic crisis and a need for systematic reform.

In South Asia the Agency has begun a major basic education program in Pakistan. We plan to work with other countries of South Asia in that region's efforts to provide quality basic education.

The Latin America and Caribbean Bureau is maintaining its diverse basic education portfolio with important new activities in Guatemala, The Dominican Republic and El Salvador.

In FY 1989 the Agency obligated nearly $70 million of Development Assistance and another $60 million of ESF in support of basic education programs. We anticipate similar levels of support for basic education in future years.

BASIC EDUCATION LEADERSHIP: RELATIONS WITH THE WORLD BANK

SENATOR KASTEN: It is my understanding that at the recent "Education for All" conference in Bangkok, Thailand, the World Bank pledged to double lending in support of basic education.

How have you positioned A.I.D. education professionals to take advantage of the World Bank's pledge?

DR. ROSKENS: The World Bank's increased commitment to Basic Education provides us, I agree, with an opportunity for concerted efforts to take advantage of the special strengths of A.I.D. and the Bank in strengthening basic education. The Bank has the advantage of very substantial financial resources to encourage countries to undertake the comprehensive adjustments needed to make their educational systems function with greater efficiency.

A.I.D., it seems to me, has three strongly complementary advantages. First, unlike the Bank we have a permanent field staff of educational and development specialists in recipient countries. Thus A.I.D. is positioned for day-to-day dialog with governments for developing the soundest interventions and for monitoring their implementation.

Second, A.I.D. leads the assistance community in educational research and development, which holds the promise for turning around the rather dismal basic education situation we find in many LDCs today. World Bank professionals have acknowledged (most

recently at WCEFA) that a primary intellectual source of their new strategy on improving basic education has been A.I.D. research on educational effectiveness. This research ranges from analytic studies to the use of "interactive" radio and other promising interventions to help teachers teach better such basic subjects as language, science and mathematics.

Third ,A.I.D. is able to draw upon the rich intellectual resources of the U.S. educational community at a time when the U.S., under the leadership of President Bush, is also engaging in a major reform and upgrading of our own educational capacity.

A.I.D. already has a strong working relationship with the World Bank, the result of efforts over the past several years by A.I.D. professionals on both the research and operational fronts. Of special importance are recent collaborative efforts in the design and execution of new A.I.D. Basic Education projects in Africa, including those in Mali, Guinea, and Ghana. In these countries, A.I.D. components of multi-donor efforts are focusing on restructuring education systems to promote greater efficiency, and on areas where we have a special capacity, such as in-service teacher training and expanding education opportunities for girls.

In short, A.I.D.'s current relationships with the World Bank provide the foundation on which to build further constructive collaboration.

BASIC EDUCATION LEADERSHIP: A.I.D. AND THE WORLD CONFERENCE ON EDUCATION FOR ALL

SENATOR KASTEN: What kind of leadership did A.I.D. provide to the "Education for All" conference, and what kind of leadership will it provide in basic education now that the conference has concluded?

DR. ROSKENS: A.I.D. played a very significant role in making the World Conference on Education for All (WCEFA) the success that it was. A.I.D. became the first co-sponsor of the Conference, in the summer of 1989, providing the broader endorsement that led eventually to 21 additional co-sponsors.

A.I.D. staff was involved in the review of key documents from an early stage, and helped reinforce many of the themes the United States considered most important. A.I.D. became the lead Agency in the U.S. Government's Inter-Agency Committee for WCEFA, which included the National Security Council, State, the Department of Education, Peace Corps, USIA, and the Inter-American Foundation. A.I.D. also served on the Steering Committee for the World Conference, which helped guide the overall effort.

In November of 1989, A.I.D. played a prominent role in the highly successful "North American Forum on Education for All", which brought together many of the leaders of both domestic and international educational development from the United States and Canada to review the strategies and long-term goals to be proposed at the WCEFA. The Forum also provided for expert discussions on the relevance of North American experience and capacities to the needs of other countries. Out of that Forum rose a new link between domestic educational experts and A.I.D., a link we are continuing to build upon.

For the world conference, A.I.D. professional staff helped organize three of the 24 key professional roundtables: educational management, at the school level as well as the central level;

"distance teaching" to improve the quality of basic education, particularly through the successful A.I.D.-developed "interactive radio" teaching system; and improved educational opportunity for girls and women. These roundtables, and an A.I.D. exhibit, "Partnership for Basic Education", provided a rich forum for discussing the potential of new tools and approaches that the world's education leaders might use to help make the goals of WCEFA a reality.

Finally, A.I.D. provided a delegation of five professionals who served on the Conference Bureau (representing North America) and the Drafting Committee, and participated in the substantive roundtables.

In sum, A.I.D. made support of the World Conference a major priority and assigned key staff to help make it a success.

A.I.D. is assessing the implications of the Conference for our future work. We already have obtained agreement of the other concerned U.S. agencies to continue with a follow-on inter-agency committee, which will be meeting regularly. I will have much more to say on the subject in the coming months.

POPULATION

SENATOR KASTEN: Given the impact on the prospect of development of the sheer number of people who must be given economic opportunities, food, education, energy, etc., what are you doing to provide leadership in making the population issue the center of your economic development policy and implementation strategy?

DR. ROSKENS: Improving the prospects for development for A.I.D.-assisted countries is a complex and often formidable task. A.I.D. is pursuing three fundamental goals to encourage such improvement: 1) Economic growth that is broad-based and sustainable, in both economic and environmental terms; 2) Human capacity development, with a particular emphasis on achieving health and education levels sufficient to enable all citizens to contribute to and benefit from economic progress; and 3) Pluralism, including the promotion of democracy, freedom and competition in the political, economic and social institutions of a nation. Support for voluntary family planning is an integral part of this program. Economic, health and human rights concerns form the basis for A.I.D.'s population assistance program.

A.I.D. is a leader in the population field, providing over 40 percent of all donor assistance. In 1988 alone, it is estimated that approximately 30 million couples received family planning supplies and services as a direct result of A.I.D.'s program. A.I.D. ought to remain an active leader in this field and I would certainly argue for a robust voluntary family planning program.

A.I.D. OFFICIAL'S COMMENTS ON AFRICA

SENATOR KASTEN: It is my understanding that in response to a question asked by Congressman Obey in a hearing in March, an A.I.D. official stated that France gives five to seven times as much aid to Africa as the U.S. does, and that, "that's the way it should be." I understand he made a similar comment about Great Britain.

I understand that these comments were justified by noting that France and Britain are former colonial powers in Africa and

therefore have more responsibility to Africa than does the United States. I have spent an enormous amount of time and effort in establishing the Development Fund for Africa and in increasing overall aid levels to Africa. We believe here that Africa is a high priority.

Perhaps you can explain what this comment might have meant, and why aid to Africa seems to have a relatively low priority in U.S. aid programs.

DR. ROSKENS: In testimony on March 15, then Acting Administrator Mark L. Edelman commented that the French give five to seven times as much aid to Africa as the United States and that "that's the way it should be." Ambassador Edelman simply was acknowledging the historic political and economic ties of France to parts of Africa. In full recognition of long established trading patterns and the existence of traditional French government systems in Francophone Africa, France traditionally provides strong support to many African economies. What happens to those economies has a direct impact on the economy of France.

Having said that, aid to Africa is not a low priority in U.S. aid programs. A.I.D. is extremely enthusiastic about the Development Fund for Africa in whose creation you played a major role. But the Development Fund for Africa is only one of several vehicles for delivering U.S. assistance to Africa. For example, the United States is providing a major portion of the funding of the IDA IX replenishment, of which almost half will be used in Africa. Considering all sources of funding, it is clear to me that the Administration accords a high priority to development efforts in sub-Saharan Africa.

BASIC PHILOSOPHY OF DEVELOPMENT

SENATOR KASTEN: Over the years, we have heard many different philosophies from those in leadership in A.I.D. -- from basic human needs to "the four pillars"*, to private sector development and to economic growth in recent years.

What do you hope to do with the resources A.I.D. has developed over the years at tremendous cost, like its personnel, corporate memory, decentralized structure, etc. Please tell us about the priorities and concerns which will guide your decision making.

Talk to us about how you balance the meeting of immediate and compelling needs -- staunching the hemorrhage of humanity, if you will -- with the need to free resources from meeting those needs to jump-start national economies.

(*The "four pillars" are: technology development and transfer, policy dialogue, institutional development, and the private sector. As for me, I'm more impressed with the basic human needs angle.)

DR. ROSKENS: The short answer to your question is that my immediate concern is to sharpen the mandate of A.I.D.

From what I've seen thus far -- and this has been confirmed by other knowledgeable parties -- A.I.D. has a tremendous pool of resources to bring to bear on foreign development. But no amount of money or talent can achieve its intended goals in the absence of a single set of well-articulated, realistic and mutually agreed-upon objectives. When an organization is pulled in too many directions or attempting to serve too many masters, it cannot possibly live up to its potential. A.I.D. cannot be all things to

all people. We must identify that which we do best and concentrate on those activities. Other, capable donor organizations may be better positioned -- by virtue of experience, operating mode or resources -- to tackle a number of finite development problems. Failing to identify and concentrate on our comparative advantages can result in an ineffective segregation of responsibilities and wasted or redundant foreign aid efforts.

Our attempts to focus our efforts better on areas of relative proficiency must be accompanied by a recognition on the part of the Congress that A.I.D. cannot and should not address all development concerns in every country to which we provide assistance. Every year, our authorization and appropriations legislation and the accompanying reports issue instructions on new areas of emphasis as well as greater specificity on how better to accomplish "old" objectives or programmatic priorities. Each one of these priority programs or concerns certainly has merit; but, taken together, the foreign assistance program loses its focus and A.I.D. has a harder time concentrating on its areas of comparative advantage.

A.I.D. consistently strives to balance humanitarian needs and the promotion of strong economies. We see these two goals as working in tandem. Without a healthy, educated, well-nourished workforce, businesses cannot grow and become competitive; without a dynamic and expanding local economy, people are denied sufficient livelihoods. We, both A.I.D. and the Congress, must take care to ensure that neither component of this critical balance takes on too much weight when requesting and appropriating foreign assistance dollars.

COOPERATION WITH THE WORLD BANK AND OTHER DONORS

SENATOR KASTEN: Given the immediate development needs in excess of funds available to major donors, how would you assess the comparative strengths of the World Bank, A.I.D. and other donors?

DR. ROSKENS: Both the World Bank and A.I.D. have particular strengths that make them comparatively well suited to accomplish specific objectives. For example, the U.S. bilateral aid program directly provides U.S. support for a recipient country and is under direct U.S. control as to program focus, timing and design. On the other hand, the World Bank leverages other donor and capital market funding, can mobilize worldwide expertise, and is often more acceptable as a purveyor of policy advice than is a bilateral donor. The regional development banks and some U.N. agencies sometimes have the advantage of a more thorough understanding of local conditions and close relationships with borrowing country policy-makers.

SENATOR KASTEN: How do you propose to obtain World Bank financial support of A.I.D. priorities, and to projectize Bank priorities?

DR. ROSKENS: The World Bank and A.I.D. work very closely together in most countries where both are active. There are very frequent discussions at all levels in Washington and in the field in which both donors discuss their respective priorities and determine to what degree and how they can support each other's efforts. The specific means selected, whether it is the World Bank or A.I.D. contributing to a project designed by the other, joint

design of a project or harmonizing components or conditions of a similar project, obviously varies with the situation.

PESTICIDE REGULATIONS

SENATOR KASTEN: During recent hearings on the Pesticide Export Reform Act of 1990, Senator Gore and other witnesses noted that many countries which export fruits and vegetables to the U.S. don't have pesticide regulatory mechanisms. A.I.D. developed procedures in 1976 to ensure that it would no longer provide pesticides to developing countries that had been cancelled for use in the U.S.

What has A.I.D. done to help establish effective pesticide regulatory mechanisms in A.I.D.-assisted countries?

DR. ROSKENS: A.I.D. is in the process of developing pesticide management guidelines and a new policy statement which emphasize the use of integrated pest management (IPM). IPM is the basic operating approach for dealing with pests in agriculture and complements our work in vector control under the health program.

A.I.D. and EPA have collaborated over the past several years on numerous pest and pesticide management projects. A major, new inter-Agency collaborative program will help strengthen pesticide regulatory mechanisms in Central American countries that export agricultural commodities to the U.S.

A.I.D. has assisted many countries in the establishment of effective pesticide regulatory mechanisms. For example, A.I.D., along with other donors, has provided technical and financial support to the Government of Indonesia for making IPM the national policy for pest control. As a result of this policy initiative, a ban was imposed on 57 registered brands of broad-spectrum insecticides and government pesticide subsidies have been decreased substantially. In Nepal, A.I.D. funded a study of pesticide use which resulted in initiatives to increase the regulation and oversight of pesticide use.

In Africa A.I.D., through the Africa Emergency Locust and Grasshopper Assistance project, supported the participation of specialists from EPA in a regional conference in Accra, Ghana to promote adoption of the International Code of Conduct for the Distribution and Use of Pesticides. In El Salvador, A.I.D. has successfully negotiated with the government a series of policy changes that will effectively reduce the importation and use of class I pesticides, while also promoting safer pesticide use. These policies include removal of indirect pesticide subsidies, restrictions on pesticide use, and the creation of a quality assurance program to ensure that export crops meet U.S. pesticide residue standards.

"THE CIRCLE OF POISON"

SENATOR KASTEN: In 1985, A.I.D. initiated joint discussions with the environmental community and manufacturers of pesticides to examine A.I.D. regulations on pesticide procurement. The purpose of this was to see how A.I.D. could improve the regulatory process in LDCs. If a country's program for the registration, use and disposal of pesticides could be improved and maintained, then A.I.D. could feel comfortable financing U.S. products as a part of development assistance. This would further reduce the country's dependence on imported pesticides lacking U.S. registration or tolerance.

Unfortunately, these talks broke off after only a few sessions.

Why hasn't A.I.D. resumed a dialogue on this opportunity to improve the health and welfare of both the developing countries and the U.S.?

DR. ROSKENS: A.I.D. has continued to work with environmental groups and the pesticide industry on various aspects of pest and pesticide management. Recently, A.I.D. sponsored a one week workshop in Niger on the problems associated with the disposal of obsolete pesticides and empty pesticide containers. This workshop was attended by government officials from 15 African countries. Expert presenters at this forum included representatives of Greenpeace, GIFAP (International Association of Agrochemical Manufacturers), USDA, EPA, NABADA (National Association of Container Reconditioners) FAO, and other organizations. GIFAP has also been collaborating with A.I.D. in East Africa on the development and implementation of train-the-trainer programs in safe pesticide use. One such course has been held in Uganda and additional sessions are planned for other East African countries. In Central America, a major A.I.D. regional project is initiating a wide range of training and technical assistance activities designed to strengthen private and public sector capabilities in appropriate pesticide management and regulation. However, to date, public sector support and capabilities in this area are not sufficient in most LDCs to justify direct pesticide import programs.

A.I.D. will continue to seek opportunities for collaborative efforts with the environmental community and industry to further the interests of safe and judicious pesticide management.

MORE ON AGRICULTURAL PESTICIDES

SENATOR KASTEN: Last December, Secretary of Agriculture Clayton Yeutter, after returning from Poland, noted that pesticides were high on their need list but the United States couldn't provide pesticides like the European Community had done. He then asked the U.S. pesticide industry to donate products requested by Poland.

Why couldn't the U.S. provide the requested pesticides if they are registered for use in the U.S. and Poland?

DR. ROSKENS: Under the Support for Eastern European Democracy (SEED) Act of 1989, Congress provided to A.I.D. the authority to conduct four discrete activities in the areas of the environment and energy. The provision of agrochemicals was not one of these areas, and presently A.I.D. does not have the authority for a broader environmental initiative in Eastern Europe in FY 1990. However, the Administration is developing a strategy for longer-term assistance. The registration and management of agricultural chemicals is likely to be an important element of this program.

SENATOR KASTEN: Wouldn't the provision of requested products be within our foreign policy interest?

DR. ROSKENS: Yes, but only if the U.S. could be assured that they will be safely handled and applied. It could be damaging to our foreign policy if the U.S. were to be perceived as providing large amounts of pesticides without appropriate safeguards concerning health and environmental safety. As part of the effort to ensure judicious pesticide use in developing countries, A.I.D. generally conducts training and other institution building

initiatives whenever pesticide use is supported. A.I.D.'s policy is to promote sustainable agricultural production while conserving and protecting the environment and natural resources. In the U.S., excessive reliance on pesticides has been shown to have many drawbacks including the development of pests resistant to pesticides. Moreover, the impact of pesticides on natural enemies often results in an increased importance of secondary pests and resurgence of key pests. For this reason, A.I.D. is dedicated to the promotion of integrated pest management which strives to minimize pesticide use through the application of sound ecological principles.

SENATOR KASTEN: Will we be prohibited from providing agricultural chemicals to Nicaragua and Panama if they request our registered products and we see an opportunity to either improve their regulatory program or introduce techniques of integrated pest management? If not, will A.I.D.'s policy of pesticide avoidance contribute directly to the continuation of the circle of poison?

DR. ROSKENS: A.I.D. is considering including Nicaragua and Panama in the Regional Environment and Natural Resources Management Project, which contains a strong pest and pesticide management component. It remains to be seen what specific agricultural programs will be developed in Nicaragua once an A.I.D. Mission is established and the new government has had a chance to assess its needs and priorities. In the case of Panama, A.I.D. will be involved initially primarily in nonproject assistance, including cash transfers, and no major traditional projects are anticipated in the near future.

A.I.D. does not have a policy of pesticide avoidance, but rather a very strong policy directed at the judicious and ecologically rational use of pesticides in A.I.D. supported activities. This policy is achieved through the promotion of integrated pest management, and adherence to the environmental regulations set forth in CFR 22, section 216 (Regulation 16). Regulation 16 requires A.I.D. to conduct a thorough review of proposed pesticide use in order to ensure that any negative impacts on the environment are minimized. Among the issues which must be considered are the availability of non-chemical control alternatives, the need for training in safe pesticide use, and the capacity of the host government to ensure the safe handling and disposal of pesticides.

QUESTIONS SUBMITTED BY SENATOR DENNIS DeCONCINI

INTENTION OF CONGRESS

SENATOR DECONCINI: Mr. Administrator, we have had money earmarked for the microenterprise program since 1987. Every year the Subcommittee report has given very specific guidelines on the use of these funds. These include: loans should be given to the poorest members of society, women should be given particular attention, and the loan size should be no larger than $500.

Can you give us A.I.D.'s interpretation of what Congress intended in appropriating this money?

DR. ROSKENS: A.I.D. believes that the Congress passed legislation to establish a microenterprise program to serve the needs of the poor in developing countries. A.I.D.'s

microenterprise program is fully consistent with the statutory earmark and the spirit of the Committee report recommendations. Loans are one important component of that program; average loans are under $400, these loans have gone to the poor, and women have been given special attention. Nearly two-thirds of the loans made with A.I.D. funds in 1988 and 1989 for the microenterprise program were smaller than $300.

SENATOR DECONCINI: A.I.D. has claimed that it is in compliance with the earmark but is unable to supply any statistics. A.I.D. has now done more work on evaluating this program. Can you tell us how much money spent under this earmark was directed at programs that meet the Congressional guidelines?

DR. ROSKENS: The microenterprise earmark requires A.I.D. to obligate or spend $75 million in fiscal year 1989 and again in 1990 for "a program of credit and other assistance to microenterprise." A.I.D. met this earmark in 1989, with $81.1 million in U.S. dollar obligations and local currency expenditures, and expects to meet it again in 1990, at a level of $83.3 million. In assessing its performance under the earmark, A.I.D. has followed a process, suggested in the FY 1988 report language, involving guidelines established with the assistance of an independent Advisory Committee on Microenterprise. A.I.D. missions were asked to use the resulting guidelines, published as A.I.D. Policy Determination 17 (PD-17), to determine which activities to include.

SENATOR DECONCINI: RESULTS, a private organization, has studied A.I.D.'s microenterprise programs in 10 countries. Out of $31.8 million that A.I.D. claimed it was spending on microenterprise for the poor, RESULTS found that only $5.2 [million] met the Congressional guidelines. Is the RESULTS study a fair indication of A.I.D.'s compliance with the earmark?

DR. ROSKENS: The RESULTS documents interpret Congressional guidelines to mean that the only type of assistance to microenterprises that can be counted toward the earmark are loans of less than $300. Within that limited interpretation, A.I.D. has provided $5.5 million in 1988 and $5.5 million in 1989, based on our recent assessment.

A.I.D. interprets Congressional guidelines differently, however. The appropriations statutes for FYs 1988, 1989 and 1990 mandate a program of credit and other assistance, and the report language does not refer to $300 as a limit, but rather as a target size. A.I.D.'s microenterprise program for 1989 contained $30.3 million in loans to microenterprises, with an average loan size of $387, $17.7 million in support to implementing organizations to enable them to carry out lending (and other) activities, $19.3 million in training and technical assistance for entrepreneurs, $3.7 million in activities to make government policies and regulations more favorable toward microenterprises, and $10.1 million for a range of other forms of support to microenterprises. A.I.D.'s position is that all these activities meet the Congressional guidelines.

A.I.D. GUIDELINES FOR PROGRAM

SENATOR DECONCINI: Mr. Administrator, A.I.D. issued guidelines for the Microenterprise Program on October 10, 1988. In spite of the very clear instructions from Congress, A.I.D. guidelines state

that "there is no precise definition of a microenterprise." In some aspects, the guidelines go specifically against the instructions given by Congress. For example, one of the guidelines stipulates that: "The average loan size should not exceed $300." Why do the guidelines say the "average" loan should not exceed $300 when the Subcommittee report clearly says that loans should not be larger than $300?

DR. ROSKENS: The conference report on the FY 1988 Continuing Resolution, in which the instructions referred to above are embodied, uses words which specifically allow A.I.D. flexibility in implementing the microenterprise earmark. It uses words such as "urges" and "recommends" in pointing A.I.D. toward lending to the poor, to women, and in amounts below $300. Moreover, the report charges A.I.D. to "appoint an advisory committee composed of individuals from nongovernmental organizations who have experience in implementation of microenterprise credit projects in developing countries to assist the Administrator in developing the guidelines for this program." A.I.D. has availed itself of the flexibility in the report language to implement a responsive program with the advice and expert judgment of the advisory committee members. It should be noted that in its most recent meeting, the Advisory Committee on Microenterprise unanimously voted to recommend that A.I.D. delete any reference to a loan size limit in the guidelines.

SENATOR DECONCINI: An evaluation of the program by A.I.D. released in December 1989 says that A.I.D. is not even meeting its own watered down guidelines. This document states that, and again I quote:

> "although the Guidelines call for an average loan size of $300, the Stocktaking found that in actual practice only one-third of the program met that criteria."

What steps are being taken to ensure compliance with the Congressional mandate?

DR. ROSKENS: The Stocktaking Report, released in December 1989, was a retrospective look at some of the A.I.D. programs active in 1988. In general, projects were selected that had been operating for several years, because such projects were better documented and could provide lessons from experience. Thus, the sample represented the "state of the art" in the mid-1980s. In recent years, partly in response to Congressional interest, A.I.D. and the organizations it supports have increasingly focused on very small loans. As a result, A.I.D. can report that in its current portfolio (1988 and 1989 activities) about two-thirds of the loans it financed are below $300, and the portfolio average was $329 for 1988 and $387 for 1989.

EFFECTIVENESS OF POVERTY LENDING

SENATOR DECONCINI: The A.I.D. evaluation of the Microenterprise program is full of quotes expressing skepticism about the ability of the poor to run a business. For example one section of the report states flatly that "the very poorest usually do not become microentrepreneurs."

Not a few weeks ago, 60 Minutes had a program on the Grameen Bank in Bangladesh - a bank that only lends small sums to the poorest segments of the population. Its evaluation was that this program was an outstanding success.

A.I.D. has also had some experience with poverty lending organizations. In South Africa, a group called "Get Ahead" provides loans to the poorest members of the black townships, with loans beginning as low as $25 and increasing as the microenterprises grow. A.I.D. has had a successful relationship with "Get Ahead" for several years and the A.I.D. mission considers this a highly efficient way of promoting black enterprises.

How did A.I.D. come to the conclusion that the poorest members of the population are incapable of becoming microentrepreneurs?

DR. ROSKENS: The question incorrectly quotes from A.I.D.'s recent Report to Congress. The correct quote is as follows: "In many of these same countries, the very poorest group consists largely of people who do not engage in microenterprise activities, such as subsistence farmers, laborers, or dependents (children, the aged, the infirm), or people who live in remote areas where microenterprise projects do not operate. Put another way, the very fact that someone is carrying on an enterprise activity may place that person above a significant fraction of the rest of the population."

This quote suggests that a focus on people engaging in microenterprise activities almost by definition moves slightly above the most extremely poor. The poor help themselves alleviate poverty through enterprise activities, and indeed, this is why A.I.D. believes microenterprises to be so important. This is true even for self-employed individuals, a major portion of A.I.D.'s beneficiaries.

The Get Ahead Foundation is rightly cited as a very successful microenterprise program, one which A.I.D. is proud to help finance. In its so-called "Stokvel Lending Program," Get Ahead makes loans ranging from approximately $35 up to approximately $450, and reaches a substantial cross section of the black community in South Africa, including, but not limited to, the very poorest. What makes the Get Ahead program even more interesting in this context, however, is its commitment to continue serving its most successful borrowers, through another A.I.D. sponsored component in which Get Ahead fully guarantees private commercial bank loans ranging between $500 and $3,000 to its clients whose businesses can grow, and which businesses in turn can provide jobs to other members of their communities. This example illustrates how successful poverty lending programs themselves see the necessity for serving the full range of microentrepreneurs.

FUTURE OF THE PROGRAM

SENATOR DECONCINI: The principal question is now where we go from here. It may be that the earmarks that we put on this program ($75 million last year) were too large for A.I.D. to implement over a short period of time. One possibility is to reduce the size of the earmark next year, while putting language in the bill that would ensure that A.I.D. would follow Congressional guidelines. What do you think about this approach?

DR. ROSKENS: There is a presumption in this question that A.I.D. did not comply with the $75 million earmark. In fact, as stated in our Report to Congress earlier this month, A.I.D. did implement a program in excess of $75 million "for programs of credit and other assistance for microenterprises in developing countries", as called for in the FY 1989 Appropriations Act. It is my view that A.I.D.'s microenterprise program should be continued and gradually expanded in future years.

I think it needs to be pointed out, however, that A.I.D.'s microenterprise program is not, and does not try to be, focused exclusively on small-scale lending. Lending in nearly all A.I.D. microenterprise projects is embedded as but one component, in most cases supported by complementary inputs such as institution strengthening, training and other forms of nonfinancial assistance. The precise composition of an A.I.D. microenterprise assistance project normally is determined in the field, by knowledgeable local counterparts and in-country practitioners, and is intended to conform to the needs identified locally, not to some predefined formula or model. In this respect, any legislated inflexibility, in whatever terms and at whatever funding level, will limit A.I.D.'s ability to respond effectively to the varying conditions that arise in differing regional and country contexts.

It is for this reason that A.I.D. proposes to continue using the flexible guidelines for its growing microenterprise program incorporated in A.I.D. Policy Determination 17. At the February 16, 1990, meeting of A.I.D.'s Advisory Committee on Microenterprise Development, the Committee concluded that "the Guidelines [PD-17] appeared essentially sound," and offered advice as to how to improve them in light of their two years of operation thus far. Significantly, a unanimous recommendation was made that guidance be made more explicit to assure that all forms of assistance -- not just credit -- be better targeted on very small-scale and poor microentrepreneurs, with poverty being defined in a country context rather than in relation to an arbitrary and possibly unrelated global ceiling applying to average loan size. A.I.D. wishes to follow the recommendations of this group of expert practitioners, and believes that refocusing the earmark in accordance with a narrower set of activities -- such as those defined by a loan-size ceiling -- would conflict directly with this advice.

PAKISTAN: FY 1991 REQUEST LEVEL

SENATOR DeCONCINI: The Administration's FY 1991 budget request for Pakistan is $210 million in Economic Support Funds and $228 million in foreign military credits. Last year, the Bush Administration requested $250 million in ESF and $240 million in FMS. If I am not mistaken, this year's request is lower than the requests for Pakistan under its former dictator, Zia.

The Administration has spoken about its commitment to assist emerging democracies. This is a commitment I share. I believe that we should do all that we can to help emerging democracies in Eastern Europe and Central America. I would submit, however, that Pakistan is both an important strategic ally as well as an important, new democracy.

Prime Minister Bhutto faced a vote of no confidence in Parliament last year and won. This is what democracies are all about.

The chairman has questioned the wisdom of spending $500 million in Panama, which has a population of only 2.5 million people and an annual per capita income of $,830 and $300 million in Nicaragua, which has a population of 3.5 million and an annual per capita income of approximately $610. Pakistan, on the other hand, has a population of 110 million people and a mean per capita income of only $370. It is an infant democracy, yet the Administration wants to reduce aid to Pakistan at a critical time in its democratic development.

Why has the Administration reduced its aid request for Pakistan in FY 1991 below its requested levels for FY 1990, below the appropriated levels for FY 1990, and below the aid levels under former President Zia - especially since there was an overall increase in the foreign aid account of roughly 9 percent?

DR. ROSKENS: Even though there is a growing number of demands on our FY 1991 budget Pakistan will remain among the top five recipients of U.S. assistance, with a requested total program of over $578 million in economic, military and counter narcotics assistance.

At requested levels, no projects will be seriously disrupted.

PAKISTAN: SPREAD BETWEEN ECONOMIC AND MILITARY ASSISTANCE

SENATOR DeCONCINI: Would the Administration consider a different spread of the funds between economic and military assistance, given that Pakistan is so poor in comparison with countries such as Nicaragua and Panama?

DR. ROSKENS: For FY 1990, 61 percent of U.S. assistance is economic, while 39 percent is military. The percentage of military assistance has decreased gradually since 1984, when it represented 50 percent of our assistance. The military component of our assistance is an essential element in our support for Pakistan, because it contributes to Pakistan's national security and serves as an incentive for Pakistan to restrain its nuclear program.

Our military assistance replaces expenditures that would otherwise come from Pakistan's overextended budget. Although the Kashmir crisis may lead to higher expenditures, for FY 1990, Pakistan's planned military budget increased in nominal terms only 1.3 percent (a decline of about 9 percent in real terms), while the education and health budgets increased by 68 percent and 26 percent respectively. This is a trend we would like to see continue.

ESPERANCA

SENATOR DECONCINI: As you may know, I have been very interested in the work accomplished by an Arizona group called Esperanca. These people have a boat which they use to bring free medical care to the people along the Amazon River in Brazil. In previous years A.I.D. has concurred in my assessment of Esperanca's good work and has provided a multi-year grant to partially fund these medical activities. It is my understanding that Esperanca has a new request into A.I.D. for approximately $940,000. I hope that A.I.D.'s support can continue in the future.

DR. ROSKENS: Yes, Esperanca has requested $940,000 for Fiscal Year 1990 from A.I.D.'s American schools and hospitals abroad program. There were a total of 92 applications received requesting a total of $114,782,414. Reviewers from both inside and outside the Agency have been reviewing the applications submitted for 1990, including the request from Esperanca. I can assure you that Esperanca will be given every consideration.

NAMIBIA - DIPLOMATIC RELATIONS

SENATOR DECONCINI: The world was very excited last month with the emergence of what could possibly be Africa's strongest democracy. The United States spent a considerable amount of

diplomatic energy on bringing the independence of Namibia into being. I have a couple of questions on U.S. policy towards the new nation of Namibia.

Have we established full diplomatic relations with the government of President Sam Nujoma? Will we be opening an embassy in the capitol of Windhoek, or will we carry on diplomacy in some other manner?

DR. ROSKENS: The United States established full diplomatic relations with Namibia and opened an Embassy in Windhoek on March 21, 1990, the first day of Namibia's independence.

NAMIBIA - AMOUNT OF U.S. ASSISTANCE

SENATOR DECONCINI: This year, A.I.D. budgeted $500,000 for activities in Namibia. This is understandable since for more than half of the year Namibia was under South African control. Yet, the newly independent Namibia is to only receive $7 million in FY 1991 under the Bush A.I.D. budget. Since we spent so much time and energy in getting Namibia independent, why are we budgeting so little assistance?

DR. ROSKENS: The United States, along with the other members of the international donor community, is very interested in seeing Namibia succeed as an independent nation. Many other donors, particularly West Germany, the European Community, Sweden, Finland, and Norway, are planning major aid programs in Namibia. Total initial donor aid commitments are expected to exceed $200 million. This fact, combined with Namibia's excellent prospects for strong and sustained economic growth, have led us to conclude that our $7.8 million for development activities in Namibia in FY 1991 is an appropriate amount, which, at $5.20 per capita, will exceed our per capita aid levels in a number of other poorer countries in southern Africa (Malawi - $3.00, Mozambique - $2.31).

U.S. DEVELOPMENT PLANS FOR NAMIBIA

SENATOR DECONCINI: What does A.I.D. plan on doing with this $7.8 million?

DR. ROSKENS: A.I.D. is planning a $7.8 million program for Namibia in FY 1991, in the following areas: $5.8 million in Economic Support Funds as a direct cash transfer to help alleviate the immediate budget crunch which the new Namibian Government faces; and $2 million from the Development Fund for Africa for graduate training at U.S. universities and short-term training at African universities; PVO activities in natural resources management; and support for Peace Corps activities.

PEACE CORPS ACTIVITIES IN NAMIBIA

SENATOR DECONCINI: Will the Peace Corps be involved in Namibia? What about other U.S. groups?

DR. ROSKENS: The Peace Corps is planning activities in Namibia, including English language training, small-scale enterprise development and community self-help projects. These activities will receive financial support from A.I.D. in both FY 1990 ($30,000) and FY 1991 ($180,000).

We understand that a number of U.S. PVOs are gearing up to start programs in Namibia. These include Africare, the Lutheran World Federation, and the Service and Development Agency of the African Methodist Episcopal Church.

SUBCOMMITTEE RECESS

Senator MIKULSKI. The subcommittee will stand in recess, until 10 a.m., Tuesday, May 1, at which time we will receive testimony from Hon. James A. Baker, Secretary of State.

[Whereupon, at 3:42 p.m., Tuesday, April 3, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, May 1.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

TUESDAY, MAY 1, 1990

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:10 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Patrick Leahy (chairman) presiding.

Present: Senators Leahy, DeConcini, Lautenberg, Kasten, D'Amato, and Specter.

DEPARTMENT OF STATE

SECRETARY OF STATE

STATEMENT OF HON. JAMES A. BAKER III, SECRETARY OF STATE

OPENING REMARKS OF SENATOR LEAHY

Senator LEAHY. Mr. Secretary, I want to welcome you. I have looked forward to this hearing for some time. Mr. Secretary, you and I have spoken about the dramatic changes around the world. We have praised Eastern Europe for throwing off generations of tyranny. We welcomed the liberation of Panama and free elections in Nicaragua, Chile, and Namibia. These changes bear directly on the future composition and goals of our foreign aid program.

So now that the praising is done, it is really time for some action. For decades, successive administrations, Republican and Democrat alike, have justified spending tens of billions of dollars in security assistance to contain communism. During the past year, in a number of areas, the justification has begun to disappear.

Communism is not threatening to expand right now. In fact, just the opposite, it appears to be dying. And in the future our national security is going to depend far more on our ability to compete in international economic markets than on superior weapons or military alliances.

The executive branch, together with Congress has an historic opportunity, I believe, to reshape all our foreign aid to keep up with today's changing world. I will have a number of questions in today's hearing that address those changes.

How are we going to adjust to the changes in the world? The military threat is vanishing. Is it clear that we should even contin-

ue to give foreign aid? What mechanism do we have for reshaping our foreign aid, what is the role for Congress in this process?

How do we develop a new purpose for American foreign aid? And how do we achieve a firm bipartisan consensus behind that purpose? Because I am thoroughly convinced that our whole foreign policy and our whole foreign aid policy cannot work unless there is a bipartisan consensus.

The answers to these fundamental questions are not going to come today or in the immediate future. There is going to be a lot of debate ahead, but I think we can start today.

I have an open mind on the restructuring of our foreign aid. But where my mind is already made up is on the question of whether we need fundamental change. I have no doubt that our present rationale for and structure of foreign aid is outdated. I have no question that it no longer adequately serves American interests.

I have criticized the fiscal year 1991 foreign aid request. It looks to me like it simply follows on from last year and the year before that and the year before that and so on. Nobody expects that people could foresee the amazing changes of the last 8 or 10 months as this aid package was being put together. But I am not sure that the requests reflect the changes that had already occurred.

We have to start adjusting now, not a year or two from now. The Warsaw Pact is a shell. The Berlin Wall has fallen. NATO is changing from a military alliance to deter aggression to a political coalition to help shape a new European order. The Soviets are out of Afghanistan, they are cooperating in resolving conflicts in Southeast Asia, Central America, and Africa.

Economic competition is the new challenge to our national well-being. Democracy, the rights of the individual, free economies are fundamental U.S. interests. A free open world system is what best suits the American genius and foreign aid, if it is going to be given, it should be used to further those interests.

But you are asking for more military aid and security assistance and less for development and economic competitiveness. Political influence, clientitis, bureaucratic inertia—I am afraid that that continues to guide too much of our foreign aid and certainly the requests that I receive.

Support for democracy still takes second place to stability in far too many recipients of our aid. Human rights often remain an afterthought in our foreign aid program. Our competitors are getting far ahead of us in Eastern Europe, where huge new markets are opening up. Japan is crowding out American business in the Pacific Rim, and yet the export assistance title of our bill is a tiny fraction of what we spend to support foreign militaries and certainly does not reflect at all the kind of competition we face worldwide.

We could do a lot more to help support democracy by strengthening democratic institutions in the developing countries. We could do a lot more to help them protect the environment, control population growth, feed their people, improve health and education, and build respect for human rights.

In my estimation, these are the directions in which we should be heading to build a stronger future.

Mr. Secretary, I want to give my good friend Senator Kasten a chance to make comments. But I would hope that today's hearing is simply the opening of a dialog. I think we have a historic opportunity to completely reshape the way foreign aid is used by this country. I think you have a historic opportunity in the Bush administration to form a bipartisan coalition with the Democratic and Republican leadership of the Senate and the House.

If we do that we are going to be a better Nation for it. All of us will benefit from the things that we worked so hard at, you in your position as Secretary of State, we as Members of Congress, to achieve the goals that I think, Mr. Secretary, unite all of us.

I yield to Senator Kasten.

STATEMENT OF SENATOR ROBERT W. KASTEN, JR.

Senator KASTEN. Mr. Chairman, thank you. I would also like to welcome our distinguished Secretary of State and, more important, our friend, Secretary Baker.

As you have noted, Mr. Secretary, a lot has happened in the last several months, particularly the last 6 months, which merits serious contemplation from all of us who are concerned about democracy and development.

And I might say, Mr. Chairman and Mr. Secretary, a lot has happened since this budget was developed in terms of changes that could not have been foreseen at the time when this budget was worked out, most of which are for the better.

In this subcommittee, we are already faced with real and potential demands on what looks to be an already inadequate budget allocation.

So the problem that we always have with fitting basic human needs against support for emerging democracies, against security assistance, will be even more difficult to face this year.

I am sure somewhere in your testimony today, Mr. Secretary, you are going to talk about flexibility. It is clear to me that flexibility requires adequate funding, and to the degree that the funding is not adequate, either because additional needs are discovered or supplementals do not come up, we end up with this zero sum game in the 150 account.

And the more the zero sum game is played, where someone's gain is someone else's loss, the more we are going to have people in here trying to earmark these funds.

So it is important that we recognize what we are dealing with. I believe that this budget, particularly with regard to the Eximbank and also with regard to refugee money, is a more realistic budget than we have worked with before. But what we have not reflected in this budget is the tremendous change in Eastern Europe.

And as you have seen in the debate on the Panama-Nicaragua emergency supplemental bill, there is a strong desire on behalf of Congress to do more in Eastern Europe, and we are going to have to address that. I am hopeful that most of what we do in Eastern Europe will not be through directly appropriated funds, but instead will be through loans, technical assistance, Exim and OPIC and others.

But I think that we need to recognize that large increases in Eastern Europe will have to come from somewhere, and it would be very, very wrong for us, in our haste to help emerging democracies, to leave behind the poorest of the poor in Africa and in other countries and/or to leave behind developing democracies in this hemisphere, specifically in the Caribbean and in Central America.

So we have a lot of work to do, Mr. Secretary, and I look forward to hearing your views on these and other matters. And as always, we look forward to working with you in a positive and a constructive way.

Senator LEAHY. Following our first-in, first-out rule, we will go in this order: Senators DeConcini, Specter, D'Amato, Lautenberg.

Senator Mikulski is at the White House for a discussion on space issues. I just wanted you to know, Mr. Secretary, that she wants to work with you closely, as she and I did last year, on population issues.

Senator DeConcini.

STATEMENT OF SENATOR DENNIS DECONCINI

Senator DECONCINI. Mr. Chairman, thank you very much.

Mr. Secretary, I am going to say up front that I think you have accomplished a great deal, you and the President and other members of the administration, in your quest for the democratic principles, and I think a great deal of credit goes to you, for your time, tenacity, and willingness to invest in things that were not probably scheduled for your time and effort 1 year ago or even 6 months ago.

I am concerned, Mr. Secretary, about a subject that I will address later in more detail. Since World War II and the beginnings of the cold war we in the United States have been the leader. It has been through Democratic administrations and, I must say, that except for 4 years, mostly Republican administrations since my tenure here.

Now that we are seeing the labors of our leadership bear some fruit, I think it is very important that the policy be as consistent as possible. And maybe you can address this.

I am concerned. The administration, has accomplished a great deal and deserves a great deal of credit. I think the Congress has supported it a great deal, in Central America and in other areas. What concerns me is that we are not consistent. Whether we are talking about students in China or the workers in Lithuania or the innocent people in the Middle East facing Iraqi chemical weapons, we must not lose our moral compass. We must shore up our support, and be consistent with meeting the particular needs of those people.

If the administration can speak plainly with an ally, such as Israel, on the problems in the Middle East and the West Bank in particular, I hope the administration can speak plainly with the Soviet Union and Mr. Gorbachev regarding Lithuania and the independence of those Baltic countries that were never recognized by the United States or the Western World.

I know it is difficult but some of us feel that we are slipping and sliding into granting most-favored-nation status to the Soviet

Union while they are still taking aggressive, oppressive actions in those Baltic countries.

We are moving closer and closer toward a summit, which is very important. But I believe that the summit is also important to the Soviet Union. I hope in your consideration of this meeting that you will weigh heavily what the effects of extending the period of time before holding the summit, or of not granting most-favored-nation status until certain goals are reached. The President has considered these possibilities previously. Some of the goals we must reach are the institutionalization in the Supreme Soviet legislation of the new emigration and visa laws that we have not yet seen, and of course, a better Soviet approach in Lithuania, Estonia, and Latvia than we are witnessing today.

And Mr. Secretary, thank you again.

Senator LEAHY. Senator Specter.

STATEMENT OF SENATOR ARLEN SPECTER

Senator SPECTER. Thank you, Mr. Chairman.

Mr. Secretary, I join my colleagues in welcoming you here and in complimenting you on an outstanding job. Yours is not an easy role. Regarding Lithuania, I would like to associate myself with Senator DeConcini's comments. I believe we should give more help to Lithuania, but not link that kind of support to a postponement of the summit.

But when it comes to granting the Soviet Union most favored nation status, Mr. Secretary, I believe you will find considerable opposition in the Senate and in the Congress as a whole, when the Soviets have acted toward Lithuania as they have. Earlier I had filed a resolution on the Aeroflot-El Al flights, where the Soviet Union was breaching an international agreement relating to humanitarian responses and emigration.

Mr. Secretary, I shall not be long because there are many Senators here, except to say that I would like to direct my questions to two trouble spots. The first involves Israel and the issue of the PLO and their record of terrorism. I am convinced that if pressure were not applied to Israel on the PLO issue, we could move ahead with the peace negotiations.

I would further seek in the questioning rounds to discuss the current situation in El Salvador, with a proposal that might limit United States aid there, as a condition to bringing verdicts in the case involving the Jesuit priests. This action would be very similar to an action in 1983, which brought a resolution to the case involving four nuns who were murdered in El Salvador in 1980.

Thank you, Mr. Chairman.

Senator LEAHY. Thank you very much.

Senator Lautenberg.

STATEMENT OF SENATOR FRANK R. LAUTENBERG

Senator LAUTENBERG. Thanks, Mr. Chairman.

Welcome, Mr. Secretary. I will not take very long, but I just want to say that I firmly believe that you and the President want to see a free Lithuania and, while we can disagree significantly on

tactics, I do not think that we are going to disagree on the goal at all.

We urge and expect that you will keep the kind of pressure on the Soviet Union that you can, short of totally disrupting a relationship that has been developing in recent years and one that gives us all a measure of comfort in terms of the kind of world at which we will be looking in the future.

That, however, does not excuse Soviet activity and in no way should encourage Soviet intransigence with the Lithuanian situation.

So Mr. Secretary, we ask that you keep the pressure on wherever possible, but keep the message in the forefront that we want to see a free Lithuania. We want to see a situation corrected that we had never agreed to in the first place.

And second, Mr. Secretary, you have been an ardent believer in adequately funding our leadership position in the world. I believe that unless we are able to pay the price to help out friends who are in need when they need us—that is financial as well as political, as well as diplomatic—that we are just going to lose out.

We see our not so friendly competitors in the economic sphere jumping out to get ahead of us wherever they can, as noted by the chairman in his comments. And that often gives them a leg up or an advantage that is very hard to match.

Mr. Secretary, I would hope, since you have had other positions with the last two administrations, that as someone who is trusted and believed in, you might help us find a level of funding for the activities that the State Department and foreign aid needs and encourage those expenditures by not penalizing other significant programs that we have.

There is a chance, we believe, most of us believe, to get a large measure of dividend from the more peaceful world that we live in. We hope, Mr. Secretary, that you will fight for the kind of funding that you believe necessary to get the quality of people you need in the State Department, to get the kind of security you need in the State Department, to get the kind of real estate you need in the State Department, to get the kind of foreign aid package that gives us a chance to be out there with the best of them and with the first of them in encouraging these newly emerging democracies to take their place in the world in the purest sense of the word.

So you have a special ear that I do not think any of us around this table have, Mr. Secretary. It is even said that you know Mr. Darman. So wherever you can help to get funding for something that you believe in, Mr. Secretary, without penalizing some of the other programs, we would appreciate it.

Senator LEAHY. Senator D'Amato.

STATEMENT OF SENATOR ALFONSE D'AMATO

Senator D'AMATO. Thank you, Mr. Chairman.

Mr. Secretary, good to see you.

I am pleased and encouraged, Mr. Secretary, by the great progress we have made in terms of democracy coming to the fore in areas that no one would have believed 1 year ago.

But having said that, Mr. Secretary, I am incredibly perplexed by the situation in Lithuania, as I think many of my colleagues are. They are more senatorial in the fact that they are more reserved at times. I do not know what it is. Maybe it is my Mediterranean background.

But I have to tell you, it seemed inconceivable to me that while we are sending a message to the Soviets on the one hand saying and cautioning and urging that they use diplomacy in dealing with Lithuania, that they not use force, that they not be aggressive, that we would be announcing the conclusion of the trade pact, thus implying that all is well and that we are going to move ahead in improving relations with the Soviets, while at the very time their actions toward Lithuania have been more aggressive than before, by the cutting off of the oil and the gas.

I just spoke to President Landsbergis, literally concluded at 5 minutes to 10 my conversation with him. I asked him to outline what is taking place in writing, so that I could submit his letter to the Congress and to yourself, and he said he would do that. The fax machine is a wonderful thing today.

He concluded by telling me, when I raised the question were the Soviets easing up on the gas—we have read this in the newspaper, this publicity that, yes, they are going to be making more gas available—he said they have not.

This is a wonderful propaganda machine that Mr. Gorbachev has, and the journalists are only too happy to pick it up and to run with it. He told me, if anything, supplies are more difficult to get in, not only gas from the pipeline and oil, but in addition manufactured goods. In addition, they are having difficulties with medical supplies, food, and citrus materials in particular.

So what I am saying is that while we have been saying, and I know you have been, Mr. Secretary, to the Soviets that, listen, you are jeopardizing important undertakings with us, on the other hand our actions, certainly at least the action in saying that we are ready to conclude a trade agreement, belies the rhetoric.

What are the Soviets to believe if on the one hand you and the administration say this is a very important point with us, freedom cannot be oppressed, and if you use aggressive tactics, if you use force, you are going to jeopardize future activity, but on the other we send this other signal, the signal that we are ready to go ahead as if it does not matter what is taking place in Lithuania?

That is perplexing, and I think it has to be perplexing and troublesome certainly to the Lithuanians. I do not really believe that that is what we are about. I certainly do not think that the administration wants to be cast in that position, and I think we have to clarify that and let the Soviets know, whether they like it or not, with more than just pleading to them that they not pursue a policy of aggression against those who seek their freedom, and in this case that is the people of Lithuania.

So I would hope you address that when we get to the questioning or might address that in your opening remarks.

Thank you, Mr. Chairman. And thank you, Mr. Secretary.

Senator LEAHY. Thank you.

Mr. Secretary, you have had the inestimable pleasure of listening to all our speeches, and the very least we can do now is give you a chance to return the favor.

OPENING REMARKS OF HON. JAMES A. BAKER III

Secretary BAKER. Thank you very much, Mr. Chairman. I welcome the opportunity to review with you this morning our fiscal 1991 budget request for foreign assistance and, if it is all right with you, I would like to ask that the written statement be entered into the record.

Senator LEAHY. Without objection.

Secretary BAKER. And I would like to highlight several points in that statement before responding to your questions.

First, with respect to Central America, Mr. Chairman, I think events over the past 4 months have proven the conventional wisdom to be false. Just over 1 year ago few, I think, would have dreamed that Mrs. Chamorro would be sworn in as the democratically elected President of Nicaragua. Few would have believed that the ruthless dictatorship of General Noriega could be defied and the democratically elected government of President Endara installed over his objections.

Today I think we have an historic opportunity to help consolidate the goal of the Central American peace process, the goal of peace and freedom throughout this region. To solidify these achievements, though, we need you, the members of this committee, others in the Senate, and indeed others in the House when this bill goes to conference, to respond quickly, generously, and effectively to the $800 million supplemental aid package that is now before the Senate.

The people of Panama and Nicaragua look to these funds, Mr. Chairman, to smooth the transition to democratic rule and to repair the ravages of years of economic mismanagement. And I am not pointing any fingers here, Mr. Chairman, certainly not at this subcommittee.

But I really do worry that we have succumbed to the temptation to play politics with the future of freedom and democracy in Central America, and so I hope that you and the other members of this committee, others in the Senate and the House, will move this legislation quickly, swiftly, and generously.

This is essential insurance against the reemergence of dictatorial rule in this hemisphere and we really hope that we will henceforth receive strong bipartisan support for this assistance package. And I am very encouraged by the comments that you made while we were waiting in the room to begin the hearing.

Let me make a point or two about Lithuania as well, Mr. Chairman, since it has been touched on by several. First of all, the President and I have repeatedly made clear both publicly and privately our view that the people of Lithuania simply must not be denied their rights.

We have supported for a long time and we continue to support the aspirations of the Lithuanian people for freedom and their aspirations for self-determination. The United States, as you well

know, has never recognized the forcible incorporation of Lithuania, Latvia, and Estonia.

The Supreme Soviet itself has called the 1939 Molotov-Ribbentrop Pact and its secret protocols illegitimate, effectively making that incorporation illegal.

This position of ours is, I think, abundantly clear, and I think also, Mr. Chairman, President Gorbachev and the rest of the Soviet leadership know full well how strongly we feel that the aspirations of the Lithuanian people should be fulfilled.

Second, we remain deeply concerned that there has been in recent weeks an escalation of tensions between the two sides. As the President stressed just last week, we encourage both the Soviets and the Lithuanians to go forward now with dialog, and over the past week, as we have seen both sides have discussed in the press various possibilities for compromise.

It is our strong hope that now the two sides will start talking to each other. This in our view holds the greatest potential for the genuine independence and the genuine freedom that we seek for the Lithuanians.

As the President has also made clear, we are involved in quiet diplomacy in an effort to promote such a dialog and to promote the various compromise proposals that you have seen surface in the press, because it is only through such a dialog, we think, that there will be a real answer to an effective resolution of this conflict.

Third, with both sides beginning to talk toward compromise, we do not want to see their efforts toward dialog compromised in any way. We have said, as you know, that if there were to be any specific U.S. action, it would be in the economic area.

And finally, Mr. Chairman, we continue to believe that perestroika, glasnost, and democratization hold the greatest hope for long-term sustainable improvement in United States-Soviet relations. But perestroika, glasnost, and especially democratization cannot be divisible.

The reform process cannot go forward and succeed if that reform process is applied in some republics and denied in others, and it really will not succeed, Mr. Chairman, if dialog becomes impossible.

Turning now to our fiscal 1991 budget request, we are requesting $21 billion in discretionary budget authority for international affairs function 150, which is an increase of 9.2 percent over fiscal 1990 levels.

For assistance programs under the jurisdiction of this subcommittee, we request $14.8 billion in discretionary budget authority, which is about 7.1 percent more than last year. We see this as an essential investment in American leadership, in our ability to protect American values and interests on a dynamic world stage.

Our budget contains five assistance initiatives in addition to a barebones-core program. First, in support of the dramatic changes under way in Eastern Europe, we are seeking $300 million to promote democratic institutions, training and technical assistance, and environmental initiatives, and to fund transitional economic support. We have submitted legislation and we look forward to working closely with the Congress on this proposal.

Second, we seek $800 million in supplemental fiscal year economic support funds for Panama and Nicaragua, as I have already mentioned.

Third, we request $436 million in military, economic, and counternarcotics assistance for the Andean countries. This initiative is essential to the President's drug strategy, and after the successful summit at Cartagena we and our partners look for congressional endorsement of our joint efforts.

Fourth, we ask for $268 million to clear arrearages to the multilateral development banks, which is one component of our effort to clear our arrearages to the United Nations and other international organizations.

Over the next decade we expect the multilateral banks to play a catalytic role in mobilizing financing for developing countries as they undertake growth-oriented reform programs. The United States simply must meet its solemn obligations, Mr. Chairman, to these organizations.

Fifth and finally, we seek $70 million in supplemental fiscal 1990 funds to meet urgent refugee admissions requirements arising largely from the continued liberalization of Soviet emigration policy.

While these initiatives reflect our most urgent challenges, they should not come at the expense of our core programs, which have been instrumental in paving the way to 40 years of peace and economic growth under free market principles.

Our modest request, $8.6 billion in security assistance and $6.6 billion in development and humanitarian assistance, will meet only our highest priority programs for longstanding friends and valued Western institutions.

For additional information, Mr. Chairman, on our request I would refer you to our written statement, and I would conclude simply on this note. In today's dynamic world, we must be flexible if we are to manage change successfully. You said that in your opening remarks, Mr. Chairman. Senator Kasten has made reference to it. Senator Lautenberg has made reference to it.

We recognize that accountability and sound management are essential to the effective administration of foreign policy, and therefore I would like to propose a kind of new code of conduct on foreign assistance. And by the way, I agree with you that we need to take a look at our overall foreign assistance program and see how we can design it so as to better enable ourselves to take advantage of some of the dynamic changes that are taking place around the world.

PREPARED STATEMENT

But I hope that we can look to constructive consultation between the legislative and the executive branches as the primary vehicle for achieving consensus on program objectives, rather than looking, as we have in the past, to earmarking. Let us explore ways together to achieve greater flexibility, greater flexibility that serves everyone's interest, as we deal with these extraordinary times and with these changing priorities.

Mr. Chairman, I would be glad to try and respond to your questions.

[The statement follows:]

STATEMENT OF JAMES A. BAKER, III

I welcome the opportunity this morning to review with you the Bush Administration's foreign policy priorities and our Fiscal Year 91 budget request for foreign assistance.

Last year, when I testified before this Subcommittee, I indicated that our best guide to today's rapidly changing world was to be found in fundamental American principles: freedom, democracy, equal rights, respect for human dignity, and fair play. Over the past year, those values and the necessity for American leadership have been much in evidence. And, as I said then and repeat now, there is an equal need for bipartisanship.

The President and I have been pleased to work productively with you, Mr. Chairman, and with the Members of this Subcommittee and others in Congress, and we look forward to even greater cooperation on the agenda before us.

Before launching into my formal presentation on budgetary issues, let me highlight our recent efforts in three areas of particular concern to this Subcommittee: Central America, Eastern Europe, and narcotics.

CENTRAL AMERICA

Just one year ago, few would have dreamed that Mrs. Violeta Chamorro would be sworn in as the democratically elected President of Nicaragua. Few would have believed that the ruthless dictatorship of General Noriega could be defied and the democratically elected government of President Endara installed over his objections.

The conventional wisdom about Central America has been proven false. In the process, we have an historic opportunity to help consolidate the goal of the Central American peace process: peace and freedom throughout the region.

To solidify these achievements, we need you to respond -- quickly, generously, and effectively -- to the $800 million supplementary aid package currently before the Senate. The people of Panama and Nicaragua look to these funds to smooth the transition to democratic rule and to repair the ravages of years of economic mismanagement. We see them as essential insurance against the reemergence of dictatorial rule in this Hemisphere. Truly the people of Central America have a unique opportunity to work together with the U.S. and other Western countries to deepen democratic rule and to promote economic growth through the free trade and open markets. The President and I count on your biparisan support for this assistance package.

The recent elections in Nicaragua make the extension of peace to El Salvador all the more central to the future of the region. We fully support the Central American peace process and the call of the Central American presidents for the FMLN to cease its attacks upon civilians and to enter into negotiations with the democratically elected government of President Cristiani under the U.N.'s good offices. We are encouraged by the dialogue announced last month in Geneva between the Salvadoran government and the FMLN; we hope both sides fulfill their commitments to begin formal negotiations. This is the year to end the war in El Salvador. Prospects are more promising today than they have been for years. Over the coming weeks, I look forward to working with both sides of the Congress on El Salvador to meet our objectives of promoting human rights, democracy, the rule of law, and a political resolution of the current conflict.

CENTRAL AND EASTERN EUROPE

Recent events in Central and Eastern Europe demonstrate that we are truly on the edge of a new world of democracy. Three months ago in Prague, I noted that the historic,

democratic movements that we are witnessing across Europe hold great promise for all of us. But initial impulses for democracy may not be enough. If 1989 was the year of sweeping away, 1990 must become the year of building anew.

One of the most daunting challenges facing the transitional governments of Eastern Europe is the need to organize and implement fair and free elections that establish open parliaments with a place for opposition. In Prague, I underscored the necessity for the new democracies to respect the rule of law, fundamental individual rights and liberties, and minority rights.

Over the past two months, free and fair elections have been held in the GDR, Hungary, and Slovenia, a republic of Yugoslavia. A non-communist, coalition government has been formed in the GDR and a non-communist coalition is expected in Hungary now that it has completed two rounds of balloting for parliamentary seats. Open, freely contested parliamentary elections are scheduled over the next two months in Romania, Czechoslovakia, and Bulgaria. Poland will hold local elections for some 50,000 positions on May 27. Election observers from the United States and other CSCE countries will be following the balloting in each country to authenticate the process.

The governments of Eastern Europe, all undertaking important reforms, demonstrate clear signs of progress toward democratic government and economies based on markets rather than central planning. This process remains fragile, and successes in the political sphere must be reinforced by successes in the economic. For democracy to succeed in Eastern Europe, it must hold out the hope of a better life for the peoples of this region. Economic vitality in these new emerging democracies is essential to maintaining the long-term

stability of Europe. We stand ready to help -- both in advising them on policies and in helping them implement them.

Initial signs regarding the adoption of market-based economic reforms in Eastern Europe are promising. Poland's Solidarity-led government has successfully begun a bold economic program which, despite the sacrifices involved, has enjoyed broad popular support. This program represents a dramatic effort to tame hyperinflation, reduce the budget deficit, cut subsidies, place state-owned industry on a competitive basis, introduce a convertible currency, liberalize trade and investment restrictions, and introduce a social safety net -- all within a very short period. In Hungary, a coalition government formed by the Hungarian Democratic Forum will be challenged to maintain and accelerate the economic reform program devised by the transitional government under Premier Nemeth. Among other things, that program slashes the government budget deficit by cutting producer and consumer subsidies, trimming defense expenditures, and raising rents and taxes.

During my trip to Prague in February, I witnessed progress toward democratic and economic reform in Czechoslovakia. The "government of understanding" led by Vaclav Havel has announced an ambitious program of political and economic reform to create favorable conditions for elections on June 8. President Havel himself has taken a key role in promoting a dialogue and consultation among Eastern and Central Europeans on a variety of issues of concern to the emerging democracies.

We plan to support these emerging democracies in three basic ways:

First, we are prepared to provide short-term emergency assistance based on need. We will be there to help break any

fall. But we will do so in a way that does not undercut the revitalization of homegrown solutions. We have already provided such assistance, in the form of food aid, to Poland and to Romania, whose first real elections are scheduled for May 20.

Second, we are prepared to help these countries make the transition from Stalinist command economies to market systems driven by private enterprise. We must appreciate that in these areas the countries of Eastern Europe have embarked on uncharted waters. Therefore, assistance -- both technical and financial -- will be needed.

Third, we must integrate these new market economies into the international economic system. They, too, are eager to end their economic isolation, recognizing that they need discipline as well as the opportunities provided through regional and global financial and economic institutions. We in the West must work with these countries so that they may join the various multilateral economic institutions, including the IMF, World Bank, and the GATT, as soon as they are prepared to meet the obligations of membership. We must also seek to remove barriers to trade both bilaterally and in the GATT.

As in the case of the Soviet Union, however, the major responsibility will be in the hands of the East Europeans themselves -- to establish a legal and economic environment conductive to the attraction and retention of private investment and savings. Successful economic reform must involve the participation of foreign private investment and a competitive domestic private sector, both poised to reap the benefits available through integration into the world economy.

There can be no doubt that the United States has a major role to play in fulfilling the promise of this new age. There

are political, security, and economic challenges to be overcome and new associations to be considered. The message I brought on my trip earlier this year was the message they all wanted to hear: As you travel the road toward democracy, as you face these challenges, you are not going to travel alone, the American people will be with you. We are committed not just at the outset of the journey but straight through until together we bring about a new world of peace and freedom.

THE WAR AGAINST DRUGS

International drug trafficking is a threat to our national security, and accordingly, the President and I have made the narcotics issue a top foreign policy priority. Ultimately, the illegal narcotics trade robs freedom not only from the individual user, but from entire nations. The drug pirates and profiteers attack the central nervous system and vital organs of government: the administration of justice, the integrity of government, the right of free speech. That is what happened in Noriega's Panama and what the narcotics barons seek for Colombia.

This Administration has proposed a bold, comprehensive strategy to address the cocaine problem that is threatening the well-being of this hemisphere. It is designed to broaden current international efforts to assist Andean governments in their struggle against drug cultivation and trafficking.

Important progress is being made in the struggle against narcotics cultivation and trafficking. During the Cartagena Summit, we joined with the Andean democracies in taking a major step forward in the war against drugs. Producer and consumer nations are no longer pointing fingers of blame at each other and arguing who is responsible for the drug problem. Now, we are joining forces to rid our hemisphere of this menace. In

Cartagena, the Summit partners pledged to attack the merchants of drugs and death from every angle -- production, distribution, finance, and use. President Bush was unequivocal in his commitment to reduce demand for drugs in the United States. We and our Summit colleagues are determined to break the back of the narcotics industry and put the illicit cartels out of business.

By going to Cartagena, the President demonstrated our country's absolute determination to fight the drug war. We are committed for however long it takes. We have assured our partners that we will not fail to support them in the drug fight. Now, as the President has put it, we have the first anti-drug cartel. We have a unified strategy, expressed in the Declaration of Cartagena, which coordinates our joint attack on all aspects of the narcotics rackets.

Together at Cartagena, we reaffirmed the need for development, trade, and investment to strengthen growth-oriented economic policies in order to offset the enormous economic costs of counternarcotics programs and of moving away from drug-based economies. We agreed to work in concert to heighten public awareness of the debilitating effects that drug production, trafficking, and abuse have on our countries. We agreed to provide economic assistance to help strengthen the legitimate economies of the Andean nations. And, we agreed to strengthen the law enforcement capabilities of our countries to bring traffickers to justice.

President Bush told his Andean colleagues that he would raise these issues with the G-7 at the Houston Summit and with other developed countries as well. The United States is working to improve and strengthen narcotics consultation and cooperation with other developed countries to bolster international support of producer-country counternarcotics efforts.

LITHUANIA

Before turning to the budget, Mr. Chairman, I would like to make several points about the situation in Lithuania.

First, as the President and I have repeatedly made clear, both publicly and privately, the people of Lithuania must not be denied their rights. We support the aspirations of the Lithuanian people for freedom and self-determination, and we have never recognized the forcible incorporation of Lithuania, Latvia, and Estonia. The Supreme Soviet itself has called the 1939 Molotov-Ribbentrop Pact and its secret protocols illegitimate, effectively making the incorporation illegal.

Our position is clear, and President Gorbachev and the rest of the Soviet leadership know how strongly we feel that the aspirations of the Lithuanian people should be fulfilled.

Second, we remain deeply concerned about the escalation of tensions between the two sides. As the President stressed last week, we encourage both the Soviets and the Lithuanians to go forward right now with dialogue. Over the last week, both sides have discussed in the press various possibilities for compromise. It is our hope that now the two sides can start talking to each other. This -- in our view -- holds the greatest potential for the freedom that we seek for the Lithuanians. As the President has also made clear, we are involved in quiet diplomacy in an effort to promote such a dialogue -- the only real answer to an effective resolution of this conflict.

Third, with both sides beginning to talk of compromise, we do not wish to see their efforts toward dialogue complicated in any way. Meanwhile, the President has said that if there were to be any U.S. action, it would be in the economic area.

Finally, we continue to believe that perestroika, glasnost, and democratization hold the greatest hope for long-term sustainable improvement in U.S.-Soviet relations. But perestroika, glasnost, and especially democratization cannot be divisible. The reform process will not go forward and succeed if it is applied in some republics and denied in others. And it won't succeed if dialogue becomes impossible.

THE NEED FOR AMERICAN LEADERSHIP

The past few months month have registered major advances in the President's foreign policy. Among our most significant achievements: We are measurably closer today to a Europe whole and free, living in peace and security. The difficult task of building democracy in Central America and Eastern Europe has begun, with the especially promising elections in Nicaragua leading the way. And working with our allies, we are also moving forward in the war against drugs.

These are the up sides, the very encouraging sides. But I would be remiss if I did not also point out the down sides. After 40 years of communism, the democracies struggling to be born or to be reborn in Europe have wrenching tasks ahead. German reunification by its very nature will require patience, fortitude, creativity, and a good will to leave not only the Cold War behind but also the history of conflict which preceded it. And of course, the war against narcotics is still far from being won.

Prudent commitment of U.S. resources will be essential to catalyze the promising changes we see on the horizon. In my testimony before the Senate Foreign Relations committee earlier this year, I set out five challenges the United States will face in the 1990's: consolidating democracy, building free

markets, helping the peace-makers, protecting the world against transnational dangers, and renewing our alliances. Meeting these challenges effectively will determine whether or not we are successful in advancing fundamental American values and interests across the globe. These are not "inside-the-beltway" issues of interest only to Washington insiders. Rather, they affect the quality of life of every American.

I ask your bipartisan support for the U.S. leadership needed to manage change in a way that protects our basic values and interests. And, I ask you on the Appropriations Committee to provide us the minimum level of resources we need to assure the effectiveness of such leadership.

OVERVIEW OF OUR FUNDING REQUEST

Foreign affairs and national defense together form the backbone of our national security. The President's budget outlines a scenario in which -- assuming present world trends continue -- our fundamental security requirements can be safeguarded in the context of a gradual decline in national defense spending. In this dynamic world environment, however, we must continue to invest judiciously in selected foreign affairs initiatives to ensure that our interests and values are protected into the next decade.

Hence, we view foreign affairs spending not as a substitute for defense, but as a complement to reinforce the positive developments around the world which can facilitate further reductions in defense spending. We do not propose to spend the "peace dividend" before it actually exists. Rather, we seek to shape a world of reduced tensions where over time our security can be assured at a lower cost.

In the context of a tight budgetary environment, therefore, the Administration is requesting $21.0 billion in discretionary budget authority for International Affairs Budget Function 150 in FY 1991. This represents an increase of $1.9 billion or 9.2% over FY 1990 levels agreed to in the context of last year's Budget Summit. Outlays for FY 1991 are estimated at $18.3 billion, up from $14.6 billion the prior year, a figure artificially depressed by special inflows.

With respect to the accounts assigned to this Subcommittee, Mr. Chairman, we are requesting $14.8 billion in discretionary budget authority for foreign assistance, up by 7.1% from the levels of FY 1990.

These sums are not large in relation to the stakes we have before us, or to the leadership position the American people expect us to play on the world stage. Indeed, our total foreign affairs request represents less than 2% of the federal budget, equivalent to about 0.4% of our gross national product. And our levels are down substantially in both real and nominal terms from those over the 1985-87 period.

In most bilateral and multilateral diplomacy, America's ability to shape and influence the world stage has far exceeded our relatively modest budgetary contributions. But our ability to catalyze support for American policy can run aground if we cannot back up our positions with adequate resources of our own.

The returns from our modest foreign affairs spending in the post-war period have been impressive -- forty years of peace, economic growth, and, most promisingly, the new wave of democracy we see on the horizon. Let us not cut corners just as our long-standing commitments are paying off.

Our budget request for foreign assistance for FY 1991 can be divided into two parts:

One, five funding initiatives, designed to respond to some of the most urgent requirements on the world stage.

Two, our core foreign assistance programs, essential to maintain the progress which is now bearing fruit in the flourishing of democracy and free markets around the world.

Funding Initiatives

We propose five new assistance funding initiatives for FY 1990 and 1991, including the Supplementary FY 1990 funding for Panama, Nicaragua, and refugees now before the Senate. All are integral to our ability to protect American values and interests into the next decade.

First, in support of the dramatic changes underway in Eastern Europe, we seek $300 million to promote democratic institutions, environmental initiatives, and training and technical assistance, and to fund transitional economic support.

All our support would be conditioned on Presidential determinations that specific recipient countries are moving positively toward political pluralism, economic reform, respect for human rights, and a willingness to build a friendly relationship with the U.S. On February 7, we submitted legislation to the Congress to provide assistance to Eastern Europe and Yugoslavia under those conditions.

We envision the following specific uses for these funds:

- Support for democratic institutions would include training for newly elected legislators, support for independent media, and promoting the rule of law in the region.

- Training and technical assistance would encompass training in the financial services sector, management and marketing, agriculture and agribusiness, and environmental pollution monitoring and control.

- Transitional economic support would assist those countries making the difficult transition to market-based economies with an active private sector, and would include financial support for credible stabilization and structural adjustment programs.

Additional support for this process is planned through U.S. participation in the European Bank for Reconstruction and Development (EBRD), which the United States has decided in principle to join. The Administration is submitting legislation to Congress seeking authorization for participation in the EBRD.

We must keep in mind that the United States is not alone in this endeavor. At the initiatve of President Bush, the Paris Summit asked the European Commission to coordinate Western support for political and economic reform in Poland and Hungary. The G-24 mechanism which resulted has been highly effective. All in all, G-24 member states -- which include all the members of the OECD -- have committed over $14 billion in grants, credits, credit guarantees, food aid, and technical assistance to Poland and Hungary. In addition, the G-24 member states, including the United States and the EC, have improved the access of Poland and Hungary to markets in the West. The United States wants the G-24 to do even more. We will be working in the G-24 to expand coordination among donors. For example, the EC has joined with us to support the Regional Environment Center in Budapest. We expect to cooperate with the EC on other joint projects in the future.

Second, we seek $800 million in Supplemental FY 1990 funds to support the economic recovery of Panama and Nicaragua, and hope the Senate will move expeditiously on our request. As I noted above, the U.S. has an historic responsibility to respond to the critical requirements faced by these Central American democracies.

Panama will need supplementary, one-time funding to restore financial stability and underpin a revival of the private sector which has traditionally been a strong and vibrant contributor to growth. Our Economic Support Funds will be used to help Panama regain its economic momentum following several years of mismanagement under Noriega. Together with our friends, including the Japanese, we are organizing a multilateral effort to help Panama normalize its relations with the international financial community. The $500 million we seek in bilateral assistance would be used for four main purposes: revitalizing the private sector, bolstering public infrastructure, restoring Panama's access to world financial markets, and restructuring the public sector and strengthening democracy.

In Nicaragua, our $300 million request marks the first installment in our assistance package for the new Chamorro Government, assisting its efforts to revive the Nicaraguan economy following a decade of mismanagement under the previous regime. Nicaragua's needs are extensive and cannot all be solved with foreign assistance. Nevertheless, it is be essential to bolster democracy and the rule of law in Nicaragua with timely assistance resources. Our FY 1990 assistance package addresses three principal objectives: restoring the productive capacity of the Nicaraguan economy -- largely through providing essential imports of inputs for agriculture and industry; assisting the repatriation of members of the

resistance and refugees; and beginning to address the more deep-seated problems of economic growth and development, through infrastructure, technical assistance, and programs to deepen Nicaraguan democracy.

To encourage our global partners to participate in assisting the process of economic recovery and democratization in Central America and the Caribbean, we are exploring the possibility of setting up an international mechanism, perhaps similar to the G-24 process in place for Eastern Europe.

Third, we request $441 million in military, economic and counter-narcotics assistance to support the Andean countries in their struggle against narcotics cultivation and trafficking. This initiative is a central pillar of the President's Drug Strategy and addresses a problem ranking high on our list of transnational challenges for the next decade. In the wake of the Cartagena Summit, the Andean leaders look to these resources to support our joint economic, security, and political fight against the narcotics trade.

Our request includes $137 million in Foreign Military Financing to bolster the Andean governments in their efforts to develop and maintain effective airlift and military capabilities for the interdiction of drug traffickers. The economic portion of our request -- $214 million -- will assist our friends in developing legitimate alternatives to the narcotics industry and implementing other structural adjustments necessary to sustain economic growth.

Fourth, we ask for your support in appropriating $268 million to clear U.S. arrearages to the multilateral development banks. This is one component of the President's initiative to clear arrears to the United Nations, other

international organizations, multilateral development banks, and U.N. peacekeeping activities.

The President feels strongly that a carefully structured arrears initiative is essential to maintaining U.S. leadership in these multilateral organizations. Over the next decade, we expect the World Bank and regional development banks to play critical roles in mobilizing funding to support growth-oriented adjustment in the developing world. To maintain our credibility and influence with these multilateral organizations, the United States must live up to its commitments.

Fifth and finally, we seek $70 million in Supplemental FY 1990 funding for urgent refugee admissions requirements. Last year, I indicated that we might need to revise our FY 1990 refugee funding request, and promised to consult with you on this issue. Primarily as a result of the continued liberalization of Soviet emigration policy, we will admit 27,000 more refugees this year than were provided for in our original request. We appreciate the support this Subcommittee has expressed for these refugee requirements, and hope that the full Senate will move expeditiously on our request.

Core Foreign Assistance Budget

The funding initiatives I cited above address some of our most urgent challenges as we enter a new decade. But we should not lose sight of the fact that our core foreign assistance programs - which offer basic support for our closest friends, allies, and Western institutions - have played an important part in assuring the stable world environment which has paved the way for those dramatic changes which we are responding to today. Our traditional bilateral and institutional

relationships have served the United States and the Western democracies well over the past four decades. The relatively modest investments we are requesting for these basic programs address the key concerns of the next decade -- promoting democracy and free markets, supporting the peacemakers, protecting against transnational threats, and invigorating alliances. They are equally important to our ability to ensure that American values and interests continue to be successfully advanced on the world stage.

Security Assistance

For FY 1991, our request for discretionary budget authority for security assistance programs (FMF, ESF, IMET, and peacekeeping) totals $8.7 billion. That marks an increase of 6.8% over the $8.1 billion appropriated by Congress in each of the past three fiscal years. Our FY 1991 request, however, is less than amounts provided in FY 1985 through FY 1987.

In our single Foreign Military Financing account (FMF), we are requesting $5.02 billion in budget authority for all-grant military assistance programs, compared with the $4.83 billion appropriated in FY 1990. For our small but important International Military Education and Training programs (IMET), our request is for $50.5 million, up from the $47.2 million appropriated for the current year. In Economic Support Funds (ESF), our request is for $3.56 billion in grants, compared with $3.18 billion provided in the current fiscal year. Only our highest priority programs can be met at these request levels.

Our security assistance resources remain essential in complementing our diplomatic initiatives for promoting peace in some of the world's most troubled regions.

Nowhere have our diplomatic efforts been more intensive than in the pursuit of a negotiated solution to the Arab-Israeli conflict. Over the past year, we have sought to create a process that would break the decades-old confrontation between Israelis and Palestinians, and then broaden the effort into a lasting peace between Israel and the entire Arab world. And we have had results. Working closely with both Israel and Egypt, we have hammered out a framework for an Israeli-Palestinian dialogue in Cairo to discuss elections for Palestinians on the West Bank and Gaza. Elections offer a practical step that could launch the kind of negotiating process that could lead to a comprehensive peace -- one based on U.N. Security Resolutions 242 and 338, security for Israel and all states in the region, and the fulfillment of the legitimate political rights of the Palestinian people. We are now waiting for the political situation in Israel to clarify. We hope that the new Israeli government that emerges can make the decisions necessary to move the peace process forward. If all parties are prepared to approach this process in a practical and broadminded way, we can make progress.

To help the peacemakers broaden and strengthen their vital and ongoing efforts, we are again requesting $5.1 billion in combined security assistance for the two Middle East peace partners. That represents about 59% of our total security assistance request. These funds meet military modernization requirements and contribute to economic stability and development objectives.

The United States and Pakistan have enjoyed close bilateral ties for more than forty years. For FY 1991, we are requesting $573 million in total bilateral assistance for FY 1991, down slightly from the $588 million provided in FY 1990. This funding reflects the continuing importance we place on this

relationship, and on the key role Pakistan continues to play in supporting the Afghan people in their struggle for self-determination. Our funding supports Pakistan's return to democracy, encourages economic development, assists military modernization, and more generally promotes regional stability.

NATO is critical to our quest for securing peace and democracy in Europe. As the President recently stated in Brussels, the ending of the Cold War does not mean an end to the most successful alliance in modern history. We foresee NATO's vital military mission being complemented by a number of additional activities which build on its strength in protecting Western security interests. These include conventional force reductions, verification, and collaboration against threats to common security posed by new lethal technology and volatile regional conflicts.

For our NATO allies on the Southern Flank -- Portugal, Greece, and Turkey -- we are requesting a combined total of $1.1 billion in military and economic assistance, or 13% of our total security assistance request. This compares with $992 million provided in FY 1990. Greece, Turkey, and Portugal are vital to NATO's Southern Tier. As NATO develops new missions over the next decade, we will need to tailor our programs to meet changing requirements. It will remain critical, however, to support host government forces as a complement to our continued access to important facilities, including the Lajes Air Base in the Azores and military and intelligence assets in Greece and Turkey.

To consolidate democracy and support economic development in Central America, we are requesting $939 million in total assistance for the Central American democracies, including $200 million for Nicaragua which has been requested through a Budget Amendment. This compares with $655 million provided through

the regular appropriations process in FY 1990, plus an additional $800 million in Supplemental assistance for Panama and Nicaragua which we look for your help to provide. As in prior years, over four-fifths of our request is oriented toward economic assistance, which is vitally needed to bolster living standards, promote market-oriented growth strategies, and create a climate for the expansion of regional peace.

The Central American democracies may be poised for the first time in a decade for a revival of economic growth, political stability, and regional peace. The extension of democracy to the entire isthmus, reduced military threats from the Sandinistas, and unanimous endorsement of market-based economic policies have created improved prospects for peace and prosperity. This enhances the opportunity for our bilateral assistance -- appropriately leveraged to policy reforms in the host countries -- to contribute more directly to broad-based economic recovery.

To bolster another fragile democracy -- the Philippines -- we are requesting $450 million in total bilateral assistance, plus a second installment of $200 million for the Multilateral Assistance Initiative (MAI). This compares with $341 million in bilateral assistance and $160 million for MAI in FY 1990. President Aquino needs our help to implement economic and military reforms necessary to broaden the foundations of her democratic government's stability. Discussions also begin shortly on renewing our base agreements with the Philippines. We hope to achieve agreement on continued use of these valuable facilities.

The key interests above -- together with the security assistance component of our narcotics initiative -- absorb 94% of our worldwide security assistance request. Budgetary

restrictions leave us with only $511 million to meet vital security interests in Africa, the Middle East, the Caribbean, Thailand, and elsewhere.

We must face together the prospect of managing tight international affairs budgets for at least the next several years. When resources get tight, let us agree on vehicles to ensure that our less visible but highly essential security interests do not get shortchanged in the process. Let us together explore ways to achieve greater flexibility to respond to changing circumstances.

We would like to work together to avoid the difficult decisions the Administration was obliged to make in FY 1990 in the distribution of security assistance resources. In FY 1990, some 82 percent of our Economic Support Funds and 92 percent of our Foreign Military Sales financing were earmarked for specific country or regional programs. Because overall assistance levels were subsequently cut, we were unable to meet our broad foreign policy requirements with the residual which remained once the earmarks had been satisfied.

In ESF, we were left with some $570 million in unearmarked funds, which had to be stretched to meet some $950 million in justified program needs. In FMS, we had about $396 million to meet $659 million in program requirements. That gave us about 60 cents on the dollar to meet the needs of unearmarked programs across the board. The tough choices on how to distribute the shortfalls have some real foreign policy effects:

-- In Central America, where the economic costs of regional instability have been compounded by uncertainty in key export markets, especially for coffee, our level of Economic Support assistance to the democracies of the isthmus fell by nearly 30 percent compared to FY 1989 levels.

-- In the Philippines, where much emphasis has been placed on meeting a commitment President Reagan made to the Aquino Government in 1988, we fell short by $96 million, more than a quarter of our combined ESF/FMS pledge.

-- In NATO, which will be vitally important in guaranteeing the security of a newly united Europe, we were unable to meet the needs of two critical friends. Our combined ESF/FMS aid to Portugal fell nearly 30 percent below our request, while our economic aid to Turkey fell 75 percent below our request.

-- In Africa and the Caribbean, Economic Support Fund assistance was virtually unavailable to support the important security and anti-drug efforts of long-standing friends including Kenya, Jamaica, and the Eastern Caribbean nations.

International Development and Humanitarian Assistance

To meet urgent human needs around the world and foster greater reliance on market forces, international development and humanitarian assistance will continue to play an important role. The U.S. remains the world leader in this field -- through our direct provision of bilateral assistance, through emergency humanitarian aid we extend in crisis situations, and the leadership position we take in refugee programs and international financial institutions. Indeed, it is largely through U.S. leadership that the world assistance community has embraced such important humanitarian concerns as first asylum for refugees. And it is greatly due to our leadership that the community continues to move away from traditional state-dominated development strategies.

For FY 1991, we are requesting $6.6 billion in budget authority for international development and humanitarian

assistance, up from $6.1 billion actually appropriated for the current year. This increase will support our new Eastern European initiative, and enable us to clear U.S. arrearages to the multilateral development banks.

For the multilateral development banks, we are requesting $1.74 billion in budget authority, up from $1.47 billion in FY 1990. This increase will enable us to clear past arrearages to the World Bank and the Asian Development Bank. Included in our request is $1.06 billion for the annual U.S. share in the ninth replenishment of the International Development Association. This soft-loan window provides concessional World Bank financing to the poorest countries. Recognizing the need for shared responsibilities, we have agreed to contribute 21.6% of this IDA replenishment, down from our 25% share of the previous exercise. Up to half the IDA funds will be slated for Sub-Saharan Africa's most urgent development and economic restructuring requirements.

For our bilateral development assistance programs -- managed by the Agency for International Development -- we are requesting $2.89 billion in FY 1991 budget authority. This provides funding for the following programs:

-- $1.23 billion for the Development Assistance program, providing for basic needs in the areas of agriculture, population, health, energy, environment, and education.

-- $561 million for the Development Fund for Africa.

-- $500 million for the Special Assistance initiatives for the Philippines ($200 million) and Eastern Europe ($300 million) that were described above.

-- $145 million for several smaller A.I.D. programs which respond to a variety of special needs -- including humanitarian disaster assistance, support for American Schools and Hospitals Abroad, and overseas housing programs.

Given the shortage of security assistance funds, multilateral and bilateral development assistance programs will continue to be our primary vehicles for promoting economic growth along free market principles in the countries of Africa. Our bilateral Development Fund for Africa is targeting such assistance to countries willing to undertake adjustment efforts to lay the basis for sustained growth. Currently, 28 African countries are undertaking formal structural adjustment efforts in close coordination with the IMF and World Bank.

Largely through assistance and admissions efforts, the United States continues to play a preeminent role in easing the plight of the world's refugees. We are making significant progress:

-- We improved our assistance to Soviet refugees by shifting our processing activities from Rome and Vienna to Moscow.

-- We are working closely with Congress on special immigration legislation to supplement our refugee programs.

-- We successfully negotiated an agreement with Vietnam to allow reeducation center detainees to resettle in the United States. Recently, the first 750 former detainees and their family members departed Vietnam under this program.

-- We are working hard in multilateral channels to preserve the principle of first asylum for Vietnamese boat

people and to make a success of the voluntary repatriation program from Hong Kong.

For FY 1991, we are requesting $476 million in budget authority for refugee activities. This compares with $438 million in total FY 1990 resources, including the supplemental funding request described above. These funds will support the admission of 95,000 refugees and 15,000 Amerasian immigrants -- the same number as the current year -- and enable us to assist the immediate needs of millions of additional refugees and displaced persons worldwide.

Other important components of our international development assistance request include:

-- $898 million in budget authority for PL-480 food aid, to support a $1.5 billion program level;

-- $181 million for Peace Corps operating expenses; and

-- $225 million for voluntary contributions to international organizations including the U.N. Development Program ($109 million) and UNICEF ($50 million).

For international narcotics control assistance programs under the management of the State Department, we are requesting a total of $150 million in FY 1991, up from $113 million in the current fiscal year. Nearly all of this increase will be devoted to significantly expanding our coca control efforts in the Andes, with Latin American country programs increasing from $57 million to $87 million. The equipment and training we provide are essential to support interdiction and law enforcement operations against the major trafficking organizations.

Stretching the Assistance Dollar

The Administration is utilizing a wide variety of tools to promote an adaptive climate for world economic growth, to ensure that our assistance resources are appropriately leveraged to deliver maximum impact. Over the past year, we and our friends have worked together on a number of programs to lay the basis for sustainable growth in the developing world.

Our bilateral Development Assistance programs worldwide are increasingly targeted to those countries willing to pursue growth-oriented structural adjustment programs.

Our assistance programs for Eastern Europe are largely devoted to stimulating private sector development, through the use of Enterprise Funds designed to catalyze entrepreneurial skills. We are working to ensure that the future development bank for Eastern Europe -- the EBRD -- carries a similar orientation toward the private sector.

Our own dynamic economic expansion -- now into its eighth year of growth -- has provided mutual trade opportunities for U.S. exporters and those from the developing world.

Our commitment to an open world investment regime is attracting additional infusions of private capital to equity markets in developing countries.

Our strengthened debt strategy now incorporates debt and debt service reduction options. These provide a more solid basis for growth to countries undertaking economic reform programs. Mexico, Costa Rica, Venezuela, Chile and the Philippines already have taken advantage of these options. We expect a number of other countries to follow suit this year.

Our commitment to support strong, adequately funded multilateral economic institutions helps foster market-oriented structural changes in the developing world. The International Monetary Fund and the World Bank will shoulder additional responsibilities as Eastern European countries seek assistance in adapting to market mechanisms. Latin American countries with structural economic problems will solicit advice from these institutions on the stabilization programs essential to the preservation of their political stability.

Our commitment to a successful completion of the Uruguay Round of GATT trade negotiations in December 1990 is vital to ensure the continued expansion of trade and economic growth in the decade and century ahead. We are tackling head on a series of tough issues in Geneva -- bringing open trading rules and discipline to new areas such as services, intellectual property rights, investment-related trade measures and world agricultural production. The GATT talks remain of the highest priority to us. We are working hard with our trading partners -- developed and developing -- to ensure a strong set of agreements that benefit all nations.

On a bilateral basis, we are deepening trade relations with our closest neighbors and friends -- Canada and Mexico -- to jointly address some of the major challenges of the next decade. In Mexico, we are working in close partnership with President Salinas to broaden our mutual agenda. Through our Framework Agreement on Trade and Investment, we continue to encourage Mexico to deepen the extensive liberalization of its trade and investment policies now underway.

The President has announced a trade initiative for the Andean Region to promote economic growth by encouraging the expansion of legitimate trade opportunities.

We are on the way to establishing a new regional grouping in the Pacific Rim, which can help identify and overcome barriers to more efficient flows of trade, capital, and technology, thereby enhancing world economic growth.

Over the past year, then, the United States has pursued an active agenda to ensure that the fruits of an open world trading an economic system accrue to those countries which are ready to participate on a competitive basis. We will continue to build on America's commitment to private enterprise, individual initiative, and a pioneering spirit to foster market-led growth in the developing world.

CONCLUSION

As the last six months have clearly demonstrated, we are approaching a new age of democracy. Free elections are transforming the globe, from Nicaragua and Panama to Poland and -- in the very near future -- the rest of Central and Eastern Europe. The primary responsibility will be in the hands of the new leadership of those countries -- to craft political and economic structures responsive to the will of the people. But they will also need help to deepen the democratic processes now underway, to introduce free markets into controlled economic structures, or simply to live in peace with their neighbors. Many of our traditional friends and allies face similar if less dramatic challenges.

Our response to these dramatic events will determine whether we are prepared to reach out and meet the challenges of the next decade. This Administration believes that American values and interests demand that we respond positively to these challenges. The budget request we have put before you is essential to meeting that task.

Let me conclude on this note. In today's dynamic world, we must be flexible if we are to manage change successfully. We in the Executive Branch recognize that accountability and sound management are essential to the effective administration of foreign policy. I would therefore propose a kind of new code of conduct on foreign assistance. We should look to constructive consultation as the primary vehicle for achieving consensus on program objectives. Let us explore together ways to achieve greater flexibility that serve everyone's interest, as we deal with these extraordinary times and changing priorities.

I look forward to working with you and the members of your subcommittee to develop a new kind of Executive-Legislative relationship on this critical issue.

EARMARKING AND A PRESIDENTIAL CONTINGENCY FUND

Senator LEAHY. Mr. Secretary, I have stated both publicly and privately and I have discussed with you and President Bush, that I am perfectly willing to support an effort to leave a significant amount of money in the foreign-aid budget that would not be earmarked, which would give as much flexibility as possible to the President of the United States.

I think earmarks began, of course, because of the reaction against the Vietnam war and aspects of that, and continued because of concerns through the Iran-Contra affair and other issues.

But as I stated before to you and I will state again here publicly, I am perfectly willing to work with you and with President Bush for the possibility of getting a significant unearmarked piece of the budget.

I would note in looking down through the budget that much of what is in there is also an administration earmark. I mean, the administration has requested funds that are basically the same as the congressional earmarks. We all know that some of those are going to be required to get a foreign aid bill passed.

But if you add up precisely what you want and really what is apt to come out of the congressional earmarks, there is very, very little left over.

Let me just go down through a number of areas. Senator Dole made a proposal earlier this year to cut earmarks for the top five or six recipients of our aid, and shift those funds to other areas. What is the administration's position on that?

Secretary BAKER. I have testified to that before, Mr. Chairman. And our position is we think that shaving earmarks would be appropriate, provided we do it across the board. We do not think we

ought to single out three countries, two countries, or four countries, because if you are going to do this and create a flexible fund, if you will, for the administration to be able to respond to changing priorities, it really ought to be done in such a way that it does not become a debate that is specific to just one or two countries.

So we would support the concept of shaving earmarks across the board. Of course, we would support the concept of eliminating earmarks entirely. Let me make that clear. And again, I take your point that the budget that came up this last time was to that extent business as usual.

But that will not be the case again, because that budget was prepared last September and October. It was prepared before all these dynamic changes that we have seen took place, and it was prepared, quite frankly, before we began the debate about earmarking and began to focus on the fact that, with the changes in the East-West relationship being what they are, we ought to take a look at our overall foreign assistance program.

So that will not be the case in the future. But let me answer your question this way: One, we would support an elimination of all earmarks. We would like you to give us the flexibility to deal with the foreign policy priorities and requirements of this Nation as they change from time to time.

Second, we would support the concept of shaving earmarks across the board, provided it was done across the board. We do not think it is appropriate to single out specific countries.

Senator LEAHY. How much would you shave them?

Secretary BAKER. We would shave them 100 percent, so you can start there as far as the administration is concerned and work down.

Senator LEAHY. How much are you willing to shave it with the idea that you actually want to get a bill passed?

Secretary BAKER. Well, you are in better shape to tell us the answer to that question, because you have got to generate the legislation.

Senator LEAHY. But Mr. Secretary, I ask the question in all seriousness, because there used to be a presidential contingency fund.

Secretary BAKER. Yes; I am aware of that.

Senator LEAHY. I support that. I would do it out of respect for you and out of respect for President Bush.

Secretary BAKER. And we are grateful, Mr. Chairman, because it takes courage to do it. It takes courage for the administration to do it, and it takes courage to do it up here, and we really welcome that approach.

Senator LEAHY. But if we do that, if we are going to take it out of the present amount in the budget, we have got to do one or two things: either take the request that you have now and say, here is the percent we will shave them to get that contingency fund; or you have got to step back and say, look, the world has changed, we have to totally redo the 1991 budget.

Maybe the latter is the better way of doing it. I do not know if that is possible. But if we keep within this thing, we really do need to know how much you would shave. Would it be 3, 4, 5 percent?

I understand what you are saying about the 100 percent, but as a practical matter what is it, 3, 4, 5, 6 percent?

Secretary BAKER. Well, let me pick up on your offer to sit down with you. If we could arrive at a figure you could support and you think this committee could support and go through the same process on the House side, you would not have any trouble with the administration coming up with a number, because we will take anything from 100 percent on down.

We need some flexibility.

ISRAEL AND THE BAKER PLAN

Senator LEAHY. Mr. Secretary, Mr. Shamir has been asked to form a new government in Israel, and his whole approach, at least if I read the press accurately, is refusal to cooperate with the Baker plan. I assume that means you, and you assume it does, too.

He wants to accelerate settlements in the West Bank and Gaza, and his government has been giving covert support to new settlements in Jerusalem. Your spokesperson has protested that.

Are you going to try to press on with the Baker plan? Does that have any chance if there is another Shamir government? Are we, as some have suggested, at a point where Israel does not really care one way or the other how the United States feels on this?

Your request is for another $3 billion in aid to Israel. Is it the administration's position that that request for aid will continue exactly where it is no matter what Israel does, either supportive or not supportive of the United States position? I ask this to suggest not at all how I might feel, but just so I will know. Is aid to Israel an entitlement program, or does it in any way relate to what their reaction is to United States proposals?

Secretary BAKER. Mr. Chairman, you have asked a lot of questions in there, or at least you have suggested a lot of questions. Let me reply in this way. First of all, we have been very careful not to in any way involve ourselves in the internal political debate in Israel. We think it would be improper to do so. We have not done so and we do not intend to do so.

Second, I know that some have referred to this as the Baker plan, but in our view it is really our effort to implement the Shamir plan. The basic proposal is the one that Prime Minister Shamir brought himself when he made a visit here to President Bush.

It is a proposal to move toward elections in the occupied territories and it is an effort to see if we can begin a dialog between Palestinians and Israelis, because it is our firmly held view that we will never be able to move to peace in the Middle East unless we can see such a dialog commence.

So you asked me, are we going to press on or are we going to throw in the towel, what are we going to do? The answer is, obviously, we are going to press on with respect to the peace process. We think that is in the interest of the United States, it is in the interest of Israel, and it is in the interest of the countries in the Middle East.

So we would like to do whatever we can to move the peace process forward in the Middle East. I was encouraged to see, just before I came here this morning, Mr. Chairman, a wire service report that I hope I quote accurately, that I believe attributed to the Prime

Minister's press spokesman a statement that the Prime Minister himself has made, and that is that he has never said no to our proposal; he has not said yes, but has not said no.

So my answer to your question is we hope very much that a government will be formed soon in Israel that will be prepared to reengage with respect to the peace process, and that we can somehow find a way to move that process forward so that we can begin a dialog between the Israelis and Palestinians.

Senator LEAHY. The last part of my question was, Has Israeli aid become in the administration's sense an entitlement or is it ever going to be based on activities in Israel?

Secretary BAKER. Well, we have never taken the position that it is an entitlement. I do not think the Government of Israel takes the position that it is an entitlement. It is assistance that we provide and furnish to a strong ally of the United States.

AID TO EL SALVADOR

Senator LEAHY. This morning's New York Times has a front page story on the report released by of the House task force on the murders of the six Salvadoran priests, the housekeeper and her daughter. It concludes:

> The Salvadoran investigation of these murders has reached a virtual standstill. No attempt is being made by the Salvadoran judge to explore the possible complicity of high-ranking officials beyond Colonel Benevides.

The Times also reports that:

> State Department officials endorse much of the conclusions of the report, expressing impatience and disappointment with the pace of the official Salvadoran investigation.

A two-part question: Are you impatient and disappointed with the pace of this investigation? And second, if so, are you or the administration going to support any limitation of military aid to El Salvador should this case go nowhere?

Secretary BAKER. Well, let me say, with respect to the latter question, Mr. Chairman, I will be meeting later today with Members from both sides of the aisle in both bodies to discuss the question of aid to El Salvador, to see if we can arrive at a bipartisan understanding on how we should approach this issue, much as we were able to do with respect to Nicaragua, with I think excellent results.

This report was just issued yesterday and I personally have not had a chance to review it in detail. I am generally familiar with the conclusions of it. Let me say that I think that the task force has conducted itself in a balanced and professional manner. I think it has produced an important report.

It makes it clear that the initial investigation down there in El Salvador was professional, the initial police work was professional. But it does raise, I think, some substantial questions about the status of the investigation today.

I plan to forward a copy of this report to President Cristiani and ask him for his response to it. He said last week that the investigation will go forward and that no one will be spared scrutiny. In fact, he said it, I think, on a television broadcast this morning. And he knows that the United States expects this.

This murder, of course, was an abomination, and while the victims cannot in any way be returned to life, of course, this case has got to become a turning point, Mr. Chairman, in the history of El Salvador. And I think it is fair to say that, sentiment being what it is in both the legislative and executive branches, our assistance is going to be affected by the way this case is handled.

I also think it is fair to say that the Government of El Salvador knows that. What we really hope will happen—will continue to happen, I should say—is that the parties will engage in serious, substantial, and good faith negotiations to end that war.

As I testified a week or so, 10 days or so ago, I think we have an opportunity to end the war in El Salvador this year, Mr. Chairman, particularly so if we do not let this become a matter of divisive political debate within the United States.

And it is my intention to exert our efforts to see if we can keep that from happening, because I really believe that working together we have the potential to end that war, hopefully through negotiations between the FMLN and the government under the good offices of the United Nations. And as you know, those negotiations are taking place right now.

Senator LEAHY. Thank you.

Bob.

Senator KASTEN. Mr. Chairman, thank you.

U.S. HOSTAGES

Mr. Secretary, in the last several days we have made some progress with regard to the hostages, Robert Polhill being released a few days ago and now Frank Reed being released. All of us are very pleased and encouraged.

At the same time, there are some questions with regard to what the United States might be asked to do or is expected to do in return.

I happen to believe that the President of the United States has had exactly the right posture with regard to the Syrians and the Iranians. But there is more and more talk that this is a kind of a press release gesture on behalf of the Syrians, and that the Iranians and the Syrians may be seeking access to world credit markets, and to increased trade and economic improvement. They recognize that they need the West if they are going to move in any direction and that means they need the United States of America. They can no longer be international outlaws; they can no longer be completely apart from the everyday workings of the world.

I would hope very much, Mr. Secretary, that we do not talk about any kind of assistance to them unless and until all of our hostages are released. I know this is a difficult problem, and it has been for two or three Presidents. We abhor having the hostages used by terrorists, and at the same time we oppose having the hostages used as vehicles for different kinds of intimidation.

Could you comment, Mr. Secretary, on what we are being asked to do directly or indirectly? I know that Mr. Reed is said to have had a note to the President from the terrorists.

And also, what are we looking toward, with regard to relationships between the United States, Syria, and Iran?

Secretary BAKER. Senator Kasten, I will not comment on what we are being asked to do directly or indirectly. I will tell you that your statement with respect to the policy is accurate.

Our policy is that we should not negotiate with terrorists, with hostage holders, we should not engage in dealmaking or in trading, because that would only encourage additional hostage-taking and additional hostage-holding.

And I think you can be sure that the administration will stick to that policy, which you have just described as being the appropriate policy. We have expressed our thanks both to the Government of Syria and to the Government of Iran because of what they both have done to facilitate the release of Mr. Polhill and Mr. Reed, and we think it is quite appropriate that we should express our thanks.

With respect to the normalization of relations with those two governments, they both know what is required. And it depends, of course, to some extent on the influence that you might determine that each would have with respect to the retention, taking or retention, of hostages.

I think that the main concern expressed in your question, that somehow we are going to engage in some sort of a quid pro quo exercise, you can put to rest.

Senator KASTEN. Mr. Secretary, thank you.

IRAQ'S USE OF CHEMICAL WEAPONS

Iraq's statements regarding the use of chemical, biological, and nuclear weapons in the Middle East have been termed by the State Department as "inflammatory, irresponsible, and outrageous."

There have been attempts, as we all know, to smuggle nuclear trigger devices into Iraq. We have statements from a number of government officials concerning different kinds of threats being made.

Iraq has proved its willingness to use chemical and biological weapons against Iran and, even more outrageously, against its own population. It has recently deployed missiles within range of Israel, and has threatened to use them.

What kinds of sanctions is the administration prepared to impose against Iraq for these actions?

Secretary BAKER. Senator Kasten, we have made it clear to the Iraqis that their recent actions in several areas have damaged the relationship between Iraq and the United States. You have mentioned their continuing efforts to develop and improve missile and chemical weapons capabilities. These are particularly disturbing to us.

We have got some measures in place now to try and block Iraq's proliferation programs. Iraq is barred from buying United States munitions list items. All of the high technology items that they want to buy from us are carefully screened. And if I might suggest it, the recent arrests in London were a part of that effort.

And in addition to that, we are working through the Australia group and the missile technology control regime to block international support for their chemical weapons and missile programs. And finally, we are in the process of reviewing the future of our CCC program with Iraq.

IRAQ AS A TERRORIST STATE

Senator KASTEN. You mentioned the fact that in last year's appropriations bill Iraq had been removed from the list of terrorist states. Therefore, Iraq is now eligible for Eximbank loans and a couple of other trade-related programs.

Do you believe that we should add Iraq back onto that list of terrorist countries?

Secretary BAKER. Well, Senator Kasten, I think we have to take a look at that, and we will be taking a look at that issue in connection with the preparation of a report for 1990.

The actions that I have referred to as having damaged our relationship with Iraq will certainly be considered. It is a little bit premature for me on May 1 to sit here and make that determination just as we sit here.

We will obviously be looking at that and we will be looking at the factors that I mentioned.

Senator KASTEN. Well, I believe that they ought to be put back on that list of terrorist countries based on what they have said and are doing, and I am going to make an effort to do that at a minimum.

There is some legislation that Senator Inouye and others have developed that goes significantly beyond that, involving agricultural credits and of other programs.

Secretary BAKER. That is the CCC program I am talking about.

Senator KASTEN. Exactly, and I would not object to going further.

The PLO, Mr. Secretary——

Secretary BAKER. Senator, could I just say there, without in any way defending, because I certainly do not, what has happened, and I think you heard what I said about the damage to our relationship, I think we ought to at least be conscious of the fact that if we take that action with respect to CCC or other economic measures, Senator Kasten, that in all probability our allies will be very quick to move in there and pick up our market share.

There will be some people in the United States that will be less than enthusiastic about that. That is not in any way said as a defense of what has happened or to take a position to try and prejudge what the CCC review will decide.

PLO MEMBERSHIP IN THE WHO

Senator KASTEN. Mr. Secretary, the PLO has once again renewed its efforts publicly and privately to obtain full membership in the World Health Organization. We have been through this battle a couple of times.

The administration vigorously opposed such efforts last year, and threatened to withhold funding for WHO had the PLO succeed. The Congress was in strong support of the administration, I would even say pushed the administration toward a strong statement.

Will the administration actively oppose the PLO's most recent attempt at obtaining membership in the World Health Organization? Specifically, is the administration still committed to pulling out of this organization and withdrawing our funds should the PLO succeed in their membership effort?

Secretary BAKER. I would like to suggest a correction to the record, Senator Kasten. And I may be wrong about this, but I think we were out there on day one saying that we would cut off our contributions to the World Health Organization if they admitted the PLO as a state. And I do not think we were pushed at all; I think we were leading the charge.

That ought to answer the question for you about how we feel this year.

Senator KASTEN. Thank you, Mr. Chairman.

Senator LEAHY. Thank you very much.

Senator DeConcini.

Senator DECONCINI. Thank you, Mr. Chairman.

MOST-FAVORED-NATION STATUS FOR U.S.S.R.

Mr. Secretary, last fall President Bush made some comments, and they were, I thought, very insistent and strong comments, that any proposed recognition or granting most-favored-nation trading status to the Soviet Union would not occur until the Supreme Soviet had implemented and codified new emigration laws. I believe drafts of that emigration legislation has been shared with the administration; I know it was shared with the Helsinki Commission here. I understood that he would insist that the emigration laws be actually codified and implemented along the terms of the draft was that circulated, and that a further condition would be that, if not all, at least more refuseniks that were on the list that the administration had given to Mr. Gorbachev personally—and I know you played an important role in that—would be released before most-favored-nation status would be granted.

My question is, are we as a nation, on the administration, about to grant most-favored-nation status without this codification, without the refuseniks being released, and with the continued very heavy-handed repression toward Lithuania by the Soviets?

Secretary BAKER. Senator, the answer is no. We have always said that passage of the legislation by the Supreme Soviet was a precondition. That was said in Malta and that remains a precondition, without reference to the other issues.

Senator DECONCINI. What about the Soviet refuseniks?

Secretary BAKER. It is not my recollection that we ever said that was a precondition.

Senator DECONCINI. I am not sure you did, either.

Secretary BAKER. No; I do not think we did.

Some of those, of course, we have made—I think you know very good progress on some of those lists. There are still a number of cases that we continue to press with respect to. I will be pressing again, as a matter of fact, on May 16 when I have a ministerial meeting with Foreign Minister Shevardnadze.

But the President has never put that out there as an express condition.

Senator DECONCINI. And you do not intend to use that as a condition? The refusal to release the refuseniks would not be a condition for most-favored-nation status?

Secretary BAKER. Well, there have been quite a few released, as you know, and there is a handful with respect to which there are different—there are questions about whether——

Senator DECONCINI. I believe that there are still close to 100 that both the State Department and the Helsinki Commission would agree upon, but it is dozens at least.

Secretary BAKER. Yes; it is dozens, that is correct. Many, many, many of course have been granted permission to leave.

Senator DECONCINI. Yes.

Secretary BAKER. And we have never assigned that——

Senator DECONCINI. If I could interrupt you, Mr. Secretary. I think the fact that you have taken a hard-nosed position with the Soviets on this issue and that maybe you are reconsidering most favored nation status, has really prompted them to move in that direction. That is just my opinion, having talked to members of the Supreme Soviet. They take very seriously, the administration's strong position.

My point is, could the refusenik issue be a consideration in the administration's decision, or is that not going to be the case?

Secretary BAKER. Well, I do not think we ought to make that decision sitting here today, because you have got another issue that you mentioned, and that is Lithuania. And I am just not prepared to sit here today—the situation, particularly with respect to the latter issue, is not static.

What the President has said is that for the time being he has determined what the appropriate response would be. I think I said in my opening remarks that if there were to be specific actions taken, they would be in the economic area. But I am not going to sit up here today and speculate.

INDEPENDENCE OF BALTIC STATES

Senator DECONCINI. Well, let me ask you this, Mr. Secretary. The United States has never recognized the illegal annexation by the Soviet Union of Lithuania, Latvia, and Estonia. That is very clear and different from our position on the other republics in the Soviet Union.

Secretary BAKER. That is correct.

Senator DECONCINI. The President has also decided not to react by recognizing the independence of these countries, who, in my judgment, moved directly as a result of Mr. Gorbachev's opening the Soviet system to democracy. So here he says, go to it, folks. They form their parliament, they have free elections, and they pass a resolution of independence. And the United States seems to say: Oh gosh, well, yes, we want you free and we want to help, but we are not going to do anything to upset Mr. Gorbachev.

How do we explain this to the East Germans, to the people in Hungary and Czechoslovakia. We always took a firm position in favor of the independence of those countries and free elections and let them move in the direction we want. Now we do not for the three Baltic countries——

Secretary BAKER. We explain——

Senator DECONCINI [continuing]. That we have never recognized as part of the Soviet Union?

Secretary BAKER. We are taking a definite and strong position with respect to self-determination for the people of Lithuania. I would disagree with you. And we explain it to the people of East Germany and Hungary by saying that the policy course we have been following has obtained freedom and democracy for you in East Germany and in Hungary, and it is obtaining for you the withdrawal of Soviet troops from your territories; and perhaps following the same policy approach will obtain the same result in time for the people of Lithuania. We certainly hope it will.

Senator DECONCINI. But we are not ready to press on the Soviet Union, as such on not granting most-favored-nation status?

Secretary BAKER. That is not the case, Senator. We have pressed, we are pressing, we continue to press. We do a lot of it privately.

Senator DECONCINI. Well, what are we pressing economically with the Soviet Union, Mr. Secretary?

Secretary BAKER. We are pressing diplomatically. What you are saying we are not doing is actually taking specific action economically today, and that is correct, and the President has spoken to that and he has said this is the appropriate response for the time being.

I have just told you the situation is not static, and it is not. But I think that the President, frankly, Senator DeConcini, is in a better position to judge what might or might not be effective in the long run.

So we would simply ask that you——

LITHUANIA

Senator DECONCINI. Well, Mr. Secretary, I do not pretend to match my knowledge of Lithuania with you or the President. I understand you are the premiers in this area. But it concerns me.

The Lithuanian Prime Minister said on Saturday that foreign oil tankers will attempt to enter a Lithuanian port on May 12 and 14. Will the United States assist? Will the United States attempt to transfer economic assistance through Norway or Sweden or one of the Scandinavian countries that has direct trade with Lithuania?

I realize you guys are the masters here and I am just a little munchkin working around here trying to express a view. But quite frankly, Mr. Secretary, I disagree with the President's position and I am sorry to tell you that, and it is nothing personal toward the President or you.

But it seems to me that we are talking and that is all we are doing. And I would hope that you might have some influence. If I had a chance to talk to the President I would try to convince him that he should recognize those countries as independent nations.

What is that going to do with our relationship with Mr. Gorbachev? Anything, if we took that position? First question, are we going to do anything about it economically on the oil, on May 12 or 14 or at any other time? And second, would it really interfere with our relationship with the Soviet Union if the United States recognized Lithuania as an independent nation?

Secretary BAKER. Senator, we have a lot of interests at stake here that are very important interests to the United States of America. One of those interests is to see the Soviets destroy 40,000

tanks as a part of the conventional forces agreement, and we want to lock that agreement in.

Another is to see them destroy 50 percent of their heavy strategic missiles which are targeted on U.S. cities. We want to see that agreement locked in.

We want to see a continued approach by the Soviet Union that will permit us to, hopefully, bring freedom and democracy to other areas of the world that are subject to regional conflict, like we were able to do in Nicaragua. And I would submit to you that had we not been in the mode that we were in with the Soviet Union, the results in Nicaragua might well not have been the same.

So that is my answer, and I am sorry you disagree, but that is what makes horseraces, I guess.

Senator DECONCINI. Yes; I guess it is. I do disagree. I think that some of the success that the administration has witnessed is partly due to the fact we have taken such a hard line with the Soviet Union: no most-favored-nation status for them as long as they continue to impose dictatorial regimes and support them in Eastern Europe.

I think we are making a major change of course here, and I regret that, and I guess that is what makes horseraces. It is what is going to make this Senator stay in the race, I will tell you that.

Thank you, Mr. Secretary.

EASTERN EUROPE

Secretary BAKER. Senator, let me just say one final thing. It is not a major change in course at all. I just said that what has led to freedom for the countries of Eastern Europe is the policy approach that we are now following. I have also said the situation is not static and it is not locked in concrete forever.

But you have a very difficult issue here, a delicate situation. Some argue that pressing too hard on the Soviets on Lithuania could reverse all of the progress that we have seen in the areas that I have just outlined. Others say that only by pressing will we help Gorbachev, for instance, keep his conservatives at bay while advancing his democratic reforms internally.

Now, we have got to make a judgment with respect to the balance to be accorded each of those competing views, and they are very valid views. And we are trying to make that judgment with respect to maintaining balance, and this is the way we see it for the time being.

Senator DECONCINI. Mr. Chairman, if I could just follow up with a short question.

Is it your belief, then, that if we recognized, took an official position to recognize Lithuania as an independent country, that in fact the Soviets would move into Eastern Europe, would move troops in, and reverse what is happening there?

Secretary BAKER. No; I am not suggesting that.

Senator DECONCINI. OK. That is all I wanted to know.

Senator LEAHY. Senator Specter.

Senator SPECTER. Thank you, Mr. Chairman.

Mr. Secretary, I congratulate you on your testimony today. It shows the same kind of balance that your policy does. Initially I

would add my voice to Senator DeConcini's regarding recognition of Lithuania. I would like to see you carry forward your initial statement that the annexation of Lithuania, Latvia, and Estonia was illegal and we ought not to recognize it.

We do not. I will stop there.

IRAQ

Let me take up very briefly a suggestion made by my distinguished colleague Senator Kasten as to Iraq. Senator Shelby and I visited with Saddam Hussein in January and recently a five-Senator delegation visited with him, and there may well be a more useful policy in trying to bring Iraq into the discussions with the West in terms of achieving a long-range peace in the Mideast.

This is a matter which we will be discussing in the Senate at length. I do not have a conclusive answer. I do agree with your policy that at this point we ought not make a decision as to next year, but ought to analyze it very carefully, because if we can bring Saddam Hussein to the peace table with Israel it would be an enormous step forward.

Secretary BAKER. I agree.

Senator SPECTER. My own view is that if we could bring President Assad of Syria and Saddam Hussein to the peace table, which is not beyond the pale of accomplishment, then we would be making extremely significant advances in the area.

THE PLO AND MIDEAST PEACE

Mr. Secretary, I want to take up with you for a moment the issue of the PLO and the ways to advance peace negotiations in the Mideast. I quite concur with you that a dialog is indispensable between the Arabs and the Israelis.

However, it is my sense that a significant stumbling block in working out a peace plan—whether it is the Shamir plan, or the Baker plan, or an amendment of the Baker plan, or a combination of the two—has been the presence of the PLO, either at the fringes or at the center of the matter. After considerable study, it is my conclusion that the PLO has not abandoned its terrorist tactics, notwithstanding Arafat's statement in December 1988.

I would invite your close personal study of a number of the details here. I base my conclusions on four factors: my own personal observations, the Israeli Prime Minister's report on PLO terrorism, the CIA analysis of that report, and the State Department's own report.

When I was in Israel in January 1989, I talked to Mayor Freij of Bethlehem about Arafat's statement. Mayor Freij had proposed a truce between the leaders of the intifada and Israel and the withdrawal of forces and negotiations. Immediately thereafter, Arafat made a statement that there would be 10 bullets placed in the body of anybody who made such a proposal, clearly directed toward Mayor Freij. Arafat denied making the statement, but the United States Embassy in Jordan had a tape recording of it.

There was a detailed report made by the Israeli Prime Minister outlining a whole series of terrorist attacks, which I obtained when

I was in Israel in January, and the State Department, our State Department, has a copy of the report.

I then wrote a letter, dated February 2, 1990, to the CIA asking for an analysis of the report and received a reply from the CIA dated February 23, 1990. Without reading them all because of the brevity of time, although I would like to have them made a part of the record, the conclusions are that there is no doubt about the incidents constituting acts of terrorism, but it is not conclusive whether they were PLO. No denial that they were PLO, no analysis of the Israeli allegations.

I think it is fair to infer from the Israeli Prime Minister's report, my letter, and the CIA response, that the balance of evidence supports the conclusion of PLO terrorist attacks.

Then there is the report from the Department of State dated March 19, 1990, and I am not going to quote very much of it because of the time limit. But the report sets forth from page 2 that since December 1988, there have been border and rocket attacks by Palestinian groups against Israel. At least nine of those involved constituent groups of the PLO and in at least three instances civilians were the target of the attack.

Then the report goes on at page 4 to point out that the PLO has not amended or repealed provisions in the 1968 Palestinian National Covenant which calls for the elimination of Zionism in Palestine.

Then at page 5: "Such statements"—referring to PLO statements—"only serve to rekindle doubts about the PLO's ultimate intentions." Then a citation from the Boston Globe of January 19 of this year of the PLO Foreign Minister that: "What we accept today we will not accept tomorrow," with the clearcut statement that any comments about renouncing terrorism were tactical only and that they will be repeated.

My submission to you, Mr. Secretary, is that, taking the State Department report as a whole, it leads fairly to a conclusion that the PLO is still engaged in terrorism and that in sum their statements still support a long-range strategy of terrorism, although there are intermittent statements to the contrary.

Now, I fully know that you have not had an opportunity to give personal attention to all of these kinds of details. But I would ask you to do that or have someone review it, because of my thought that, if the United States Department of State were to say that the PLO has not altered its position and that Arafat's statements of December 1988 are subterfuge and removed the PLO out of the negotiating range and relied upon other Palestinians, of which there are plenty, that we would move ahead the dialog that you call for, and that we all agree is necessary between Israel and the Palestinians to try to move to some sort of a settlement.

[The information referred to follows:]

LETTER FROM SENATOR ARLEN SPECTER

The Honorable William H. Webster
Director of Central Intelligence
Central Intelligence Agency
Washington, D.C. 20505

February 2, 1990

Dear Judge Webster:

During my recent trip to Israel, the issue arose of whether the PLO has undertaken terrorism since Yasser Arafat's Geneva renunciation of December 15, 1988. The Government of Israel has issued a report noting that there have been 13 terrorist attacks by the PLO inside of Israel's pre-1967 borders between the period of December 15, 1988 and December 15, 1989. Our embassy in Tel Aviv is dubious of the report.

Since the issue is an important one in the peace process, I would appreciate an updated intelligence assessment of PLO terrorism activity both in Israel and internationally during this time frame. Specifically, I am looking for a detailed listing of each incident, if any, by date.

In addition, I would like to have a summary and assessment of PLO and PNC public statements (including PLO, PNC or Fatah resolutions) during this same time frame which are in consonance with or contrary to Arafat's 15 December 1988 renunciation of terrorism and his acceptance of the State of Israel. In particular, may I have a copy of the transcript and tape (if in English) of Arafat's statement that "any Palestinian leader who proposes an end to the Intifada exposes himself to the bullets of his own people and endangers his life. The PLO will know how to deal with him." The statement was reportedly made on Radio Monte Carlo on January 2, 1989 and in Al-Qabas, Kuwait on January 1, 1989.

Finally, I would appreciate your judgment of whether Arafat has been in compliance with his December 15, 1988 Geneva statement, particularly in regard to a renunciation of terrorism.

A February 21 response would be greatly appreciated.

Sincerely,

Arlen Specter

LETTER FROM CENTRAL INTELLIGENCE AGENCY

The Honorable Arlen Specter
United States Senate
Washington, DC 20510

23 February 1990

Dear Senator Specter:

This is in response to your 2 February letter to Judge Webster, requesting an assessment of recent Palestine Liberation Organization (PLO) involvement in terrorist activity.

In that letter, you cited 13 incidents that occurred within Israel's pre-1967 borders between 15 December 1988 and

15 December 1989, to which your attention was drawn by Israeli authorities during your recent trip. (We agree that these incidents constitute acts of terrorism but have no intelligence with which to confirm PLO involvement.) We are likewise unable to substantiate the Israeli claim that Fatah elements outside the occupied territories ordered these attacks.

You also requested a summary and assessment of PLO and PNC public statements during the same time frame that may bear on Arafat's 15 December 1988 renunciation of terrorism and his acceptance of the state of Israel. The PLO's official statements have been consonant with Arafat's renunciation of terrorism and his recognition of Israel's right to exist. None of the PLO's governing bodies has rescinded or amended any part of his Geneva statements. Arafat and all PLO leaders distinguish acts of armed resistance from acts of terrorism, however, and consider Intifada violence and cross-border infiltrations into Israel as legitimate armed struggle.

The PLO Central Council issued a communique after its October 1989 meeting in Baghdad, reiterating the PLO's commitment to the 1988 decisions of the Palestine National Council which endorsed a two-state solution to the conflict and gave a qualified condemnation of terrorism. Some senior members of Arafat's Fatah faction, however, have publicly described the PLO's support for a two state-solution as a preliminary phase leading to the eventual peaceful establishment of a unitary democratic state in all of historic Palestine (Khalid al-Hasan in Al-Musawwar, 20 January 1989 and Faruq Qaddumi in Al Tadamun, 23 January 1989). The Fatah General Congress in August 1989 also affirmed the Palestinian "right to return" without explicitly recognizing Israel's right to exist. We do not have a tape or transcript of the early January 1989 statement by Arafat that you cited. In the same month, however, Arafat publicly threatened Bethlehem Mayor Elias Freij for proposing a Palestinian-Israeli truce. He later sought to distance himself from this statement.

Finally, you asked for our judgment as to whether Arafat's behavior since 15 December 1988 amounts to compliance with his Geneva pledge to renounce terrorism. On a policy matter of this sort, I would suggest that you seek the views of the Department of State.

In closing, I want you to know that we have appreciated the opportunity to meet with Charlie Battaglia in preparation for your trip and, after your return, to hear his impressions of what transpired. If I can be of any further assistance, perhaps by arranging for a briefing by our analysts on what we do and do not know about this highly complex subject, please do not hesitate to ask.

Sincerely,

Richard J. Kerr
Deputy Director of Central Intelligence

MEMORANDUM FROM CHARLES BATTAGLIA

Memorandum for Senator Specter
From: Charles Battaglia

March 22, 1990

Subject: State Department Reports on PLO Compliance with Commitments

Attached are three State Dept reports mandated by law and given recent press coverage:

1. A one-time report on policy towards recent armed incursions into Israel by PLO-affiliated groups.
Finding: Of the nine attempted incursions between Dec 15, 1988 and March 15, 1989 (period cited in the legislation), five were not by PLO factions. Four other incidents occurred in Lebanon and the targets unclear.
Conclusion: "It is the Administration's position that the PLO has adhered to its commitment undertaken in 1988 to renounce terrorism. One problem has been some actions undertaken by Damascus-based PLO groups such as the PFLP and DFLP. We have no evidence that these actions were authorized or approved by the PLO Executive Committee or Arafat personally."

2. A recurring report on PLO compliance with its commitments. This is an examination of the PLO and the Intifada, PLO Covenant, PLO statements.
Finding: There are still inconsistencies such as the continued existence in the Covenant of the provision calling for "elimination of Zionism in Palestine." On May 2, 1989, Arafat told a Paris press conference that the Covenant was null and void. Also, PFLP head George Habash (a faction of the PLO) in June 9, 1989 stated that the "establishment of a Palestinian state in the West Bank and Gaza will mark the beginning of the breakdown of the Zionist plan. We can rely on this breakdown to continue the struggle to achieve full objective of liberating all the Palestinian national soil."
Summary: The Bush Adminstration's policy is to measure PLO actions and statements against the commitments the PLO undertook in December 1988.

3. A one-time report on policies of Arab states toward the peace process.
Summary: The report holds that the attitudes of most Arab states have evolved from the "three no's" in 1967 -- "no peace with Israel, no recognition of Israel, no negotiation with it" -- to a more pragmatic and positive approach. "We have asked each Arab state individually to follow the PLO's decision to recognize Israel's right to exist."
Charlie's Comment: While Arab attitudes are changing, the "three no's" are still in effect. With the exception of Egypt, the Arab states are still in a technical state of war with Israel, there is no diplomatic recognition of Israel, and there is no negotiations with Israel.

STATE DEPARTMENT REPORT ON PLO

March 13, 1990

Dear Mr. Chairman:

At the request of the Acting Secretary of State and pursuant to Title VIII of Public Law 101-246 (the PLO Commitments Compliance Act of the Foreign Relations Authorization Act), I am transmitting to you under cover of this letter the three reports mandated by the law:

-- A one-time report on policy towards recent armed incursions into Israel by PLO-affiliated groups;

-- A recurring report on PLO compliance with its commitments;

-- A one-time report on policies of Arab states toward the peace process.

In submitting this report, I would like to recall that the President, in his signing statement, expressed several reservations. In regard to Section 804 of the Act, the President cautioned that "such blanket reporting requirements could be read to compel the disclosure of the contents of sensitive ongoing negotiations and may, therefore, compromise my constitutional authority over such negotiations."

The President also expressed concern about the effect of such provisions on the spirit of cooperation and trust between the executive and legislative branches and stated that he would construe these provisions in light of his constitutional duties.

All of these reports are intended to be responsive to the reporting requirements set forth in the Act. For additional information on these topics, I would respectfully refer the Congress to our annual reports: Patterns of Global Terrorism and Country Reports on Human Rights covering Israel and the Occupied Territories.

Sincerely,

Janet G. Mullins
Assistant Secretary
Legislative Affairs

[From the Congressional Record, Feb. 7, 1990]

PRIME MINISTER'S BUREAU ADVISOR FOR COUNTERING TERRORISM

P.L.O. Terror--A Year Since Its Renunciation (Dec. 15, 1988-Dec. 15, 1989)

EXECUTIVE SUMMARY

The P.L.O. continues with its terrorist activities inside Israel and on its borders in violation of its undertakings in Geneva in December 1988 and in violation of the U.S. conditions to the dialogue with P.L.O.

In the past year the following terrorist attacks took place:

13 terrorist attacks by "Fatah" inside Israel in its pre-1967 borders.

17 border attacks by P.L.O.-affiliated organizations, (including 2 Katyusha rocket attacks on Kibbutzim in the Jordan Valley and 15 infiltration attempts across all borders, including 2 by "Fatah").

126 Palestinian were murdered on directives of the "Unified Command" (an organ operated by P.L.O. in the territories).

UNITED STATES' POLICY CONCERNING P.L.O. TERRORISM

In 1984 the United States re affirmed and codified its policy regarding P.L.O. in the U.S. Congress Amendment to the Foreign Aid Bill, Title XIII, section 1302.

It added a stipulation demanding that the P.L.O. renounces terrorism: "In accordance with that policy no officer or employee of the United States Government and no agent or other individual acting on behalf of the United States Government shall negotiate with the Palestine Liberation Organization or any representatives thereof (except in an emergency or humanitarian situation) unless and until the Palestine Liberation Organization recognizes Israel's right to exist, accepts United Nations Security Council resolutions 242 and 338, and renounces the use of terrorism".

The codification went into effect on October 1, 1985.

On December 15, 1988 the United States began contacts with the P.L.O. based on the assumption that Arafat's declaration in Geneva justified this move.

On Dec. 16, 1988 Ambassador Pickering conveyed to the Government of Israel the U.S. "Talking Points" regarding the U.S.-P.L.O. dialogue.

The Talking Points stipulated that "no American Administration can sustain the dialogue if terrorism continues by the P.L.O. or any of its factions".

Furthermore, the P.L.O. was required to "publicaly disassociate yourselves from terrorism by any Palestinian group operating anywhere".

The U.S. also stipulated that "in the event of a terrorist action by any element of the P.L.O. or one or more of its members—we expect that you not only condemn this action publicly but also discipline those responsible for it, at least by expelling them from the P.L.O.".

Not only has the P.L.O. failed to fulfill these requirements but Arafat's own "Fatah" organization, in particular, has itself engaged in terrorist acts, as will be demonstrated in the following report, and it has, furthermore, encouraged and lauded these attacks, even in the midst of the dialogue.

Ambassador Pickering also informed the Government of Israel that Arafat had told the U.S. that he does not control the violence in the areas of Judea, Samaria and Gaza, and that the U.S. accepted this statement by Arafat.

The P.L.O. may or may not have ignited the violence, but there is no doubt that the P.L.O. directs and finances the activities of those who are leading and inciting it (namely, P.L.O.'s "Unified Command" in the territories).

It should be noted that this is not the first time that the P.L.O. has violated its commitment to renounce terrorism.

On November 1985 Arafat declared in Cairo that the P.L.O. would renounce terrorism (except in the "occupied territories").

However, since his November 1985 "Cairo Declaration" until his December 1988 "Geneva Declaration"—"Fatah" itself, commanded by Arafat, organized and carried out terrorist activities throughout Israel (in its pre-1967 borders) and abroad, including a major attack on an American airliner flying over Athens, on April 2, 1986 (See appendix).

On Dec. 19, 1988 Arafat responded to a question on Viennese Television on his "renunciation" of terror by stating: "I did not mean to renounce (terrorism) . . . Actually, I only repeated what our Palestine National Council had accepted. . . . I am still now committed to what I said in Cario in 1985".

ARAFAT'S "FATAH" TERRORIST APPARATUSES

The P.L.O. is an umbrella organization which encompasses several groups. By far the largest group with para-military characteristics is "Fatah".

Arafat, as commander of "Fatah", maintains centralized control over the organization through orders and instructions, approval of plans, and allocation of the funds necessary for the execution of terrorist operations.

The apparatuses involved with terrorist activities under "Fatah" are:

1. The "Western Sector"

This is the major operational body within "Fatah", which carries out terrorist activities within Israel's borders as well as occasional attacks abroad.

In the past, the "Western Sector" was

headed by Khalil Al-Wazir ("Abu Jihad"), one of "Fatah's" senior leaders, thus indicating the importance of this apparatus within the terrorist community. Currently, Arafat himself commands the "Western Sector".

Within this body operates the "Committee 77" (headed previously by Basem Sultan and Muhammad Bheis). Its main function is to activate "Fatah's" "Islamic Jihad" special branch.

2. "Force 17"

The prime role of this apparatus is to provide personal security for Arafat and senior members of the P.L.O. and for P.L.O. delegations around the world.

Over the years this apparatus assumed an additional task, namely, the execution of terrorist attacks both in and out of Israel, as well as the elimination of Arab-Palestinian opponents to "Fatah" (like the murder of a Palestinian cartoonist in London in July 1987; (see appendix).

The commander of this apparatus is one of Arafat's closest associates, Mahmoud Al-Natur (alias "Abu Tayyib").

3. The "Hawari Apparatus"

This is a specialized strike force for the purpose of carrying out operations outside of Israel.

In the past it was a section within the "Central Security and Intelligence Apparatus" of "Fatah". Currently it is operating directly under Arafat's command.

The head of this apparatus is a senior "Fatah" activist named Abdallah Abd Al Hamid Labib (alias "Colonel Hawari") who has been a close confidant of Arafat for many years.

A number of members of this group have already been tried and found guilty for terrorist activities in various European countries. "Hawari" himself was recently sentenced in France (in absentia) to ten years imprisonment.

Among members of the "Hawari Apparatus" are also former members of another radical terrorist group known by the name of "May 15".

Another member of this apparatus is the terrorist Muhammad Rashid who is in jail now in Greece and whose extradition was requested by the U.S. Government, for his responsibility for the 1982 attempt to blow up a Pan-American airliner over Honolulu (in which attack a civilian passenger was killed).

TERRORIST ACTS BY "FATAH" INSIDE ISRAEL IN ITS PRE-1967 BORDER SINCE DEC. 15, 1988

Since December 15, 1988 we have recorded thirteen acts of terror against civilians (involving explosives, hand grenade and Molotov Cocktails) committed by members of "Fatah", within Israel's pre-67 borders.

The following list documents these acts.

In April 1989 a cell of terrorists was uncovered in the district of Jenin (Samaria). The terrorists, ten in number, all residents of the village of Arabeh, were members of the "Fatah"/"Force 17" apparatus.

The members of the cell were recruited in Amman (Jordan) during 1987-1988 and committed the following acts of terrorism after mid December 1988, on instructions of their superiors in Amman:

Feb. 24, 1989: A Molotov Cocktail was thrown at a private car on the Nazareth-Yafi'a road.

Mar. 23, 1989: A Molotov Cocktail was thrown at a private car on the Kibbutz Kfar Hakhoresh-Yafi'a road.

Mar. 29, 1989: A handgrenade was thrown at a public bus on the Nazareth-Afula road.

In June 1989, a terrorist cell was uncovered in the district of Bethlehem. The terrorists, residents of the village of Teqoah, were members of "Fatah"/"Western Sector" apparatus. They were recruited in Amman in 1988, and instructed by their superiors after mid-December 1988 to commit acts of terrorism.

May 16, 1989: An explosive device was placed in the Liberty-Bell Park in West Jerusalem.

In June 1989, a terrorist cell was uncovered in the district of Tulkarm (Samaria). The terrorists, residents of the village of Al-Zawiya near Qalqilia, were members of the "Fatah"/"Force 17" apparatus.

They were recruited in Amman in 1988 and instructed by their superiors, after Mid-December 1988, to commit acts of terrorism:

Mar. 20, 1989: An explosive device was placed at a bus station near the "Beilinson" hospital in Petah-Tikva.

Mar. 21, 1989: Another explosive device was placed at the same location.

Mar. 31, 1989: An explosive device was placed at the entrance to a Jewish Synagogue in Kfar Avraham (near Petah-Tikva).

Apr. 16, 1989: An explosive device was placed near an apartment house in the town of Pardes Kats.

Apr. 30, 1989: An explosive device was placed at the Jabotinsky Street in the city of Ramat Gan.

May 15, 1989: An explosive device was placed at the industrial zone of Segula (near Petah-Tikva).

Jun. 5, 1989: An explosive device was placed in Hakovshim Street in Tel Aviv.

Another terrorist act committed by this cell could be added to the above list though it caused no damage inside Israel:

Jun. 15, 1989: An explosive device—intended to be placed in Tel Aviv—exploded in the hands of the perpetrator, during the preparation stages, in his village, causing him injury.

In October 1989 a terrorist cell was uncovered in the district of Jenin (Samaria). The terrorists, residents of the town of Jenin and the villages Siyiat Al-Hartiya and Deir Abu-Dha'if were members of "Fatah". They were recruited in Jordan prior to Dec. 15, 1988 and instructed by their superiors to commit acts of terrorism after this date:

Apr. 11, 1989: An explosive device was placed in an irrigation installation in the village of Ram-On (near Afula).

Not included in this list are tens of "Fatah" operatives who were arrested before they were able to carry out their plans.

TERRORIST ATTACKS ACROSS ISRAELI BORDERS BY P.L.O.-AFFILIATED ORGANIZATIONS SINCE DECEMBER 15, 1988

Since December 15, 1988 we recorded seventeen attacks across all Israeli borders, perpetrated by P.L.O-affiliated organizations.

These attacks take two forms:

a. "Katyusha" rocket attacks fired from outside Israel's borders on civilian targets within the country.

b. Infiltration attempts.

The following list records these attacks.

A. "Katyusha" Rockets

Two rocket attacks were perpetrated by the "P.F.L.P." ("The Popular Front for the Liberation of Palestine", headed by George Habash). Both attacks were launched from Jordanian territory.

The first attack took place on the night between the seventh and eighth of August 1989. The "P.F.L.P." took responsibility for the attack claiming that it was aimed at Kibbutz Ma'oz Hayim in the Jordan Valley.

The second attack took place on the night between the sixth and the seventh of September 1989. The "P.F.L.P." took responsibility for the attack claiming that it was aimed at Kibbutz Tel-Katzir.

(The rockets fell near a neighbouring Kibbutz-Sha'ar Hagolan).

In a third "Katyusha" attack (on May 27, 1989) on the town of Metulah in the upper Galilee, the "P.F.L.P." was one party to a coordinated attack perpetrated by three organizations: "Hizballah", "P.L.F." ("Palestine Liberation Front") Tal'at Ya'qub faction, and the "P.F.L.P.".

B. Infiltration Attempts

The following table lists seventeen infiltration attempts across all Israeli borders perpetrated by P.L.O.-affiliated organizations.

The P.S.F. ("Popular Struggle Front" headed by Samir Ghosheh) and the P.L.F./ Tal'at Ya'qub Faction (headed by Yousef Al-Miqdah) participated in Algiers P.L.O. conference in November 1988 and were party to the decisions taken there.

On Nov. 19, 1989 P.L.O.'s organ "Falastin Al-Thawra" announced the re-unification of the two factions of the "P.L.F." (the "Abu Abbas" faction and the "Tal'at Ya' qub" faction), "thanks to Arafat's efforts."

Thus, since mid-November 1989, both organizations are part of P.L.O.

Nevertheless some observers consider the "P.S.F." and the "P.L.F."-Tal'at Ya'qub faction to be more inclined to the more radical grouping of Palestinian terrorist organizations.

Even if we omit the attacks committed by these organizations, we are still left with ten mainstream-P.L.O. attacks of this type.

LIST OF INFILTRATION ATTEMPTS

Organization	Attacks	Borders	Dates
"Fatah" (Headed by Yasir Arafat	2	Egyptian Egyptian	Mar. 15, 1989 Dec. 4, 1989
"P.F.L.P." (Headed by George Habash) "Popular Front for the Liberation of Palestine".	4	Lebanese Lebanese Lebanese Lebanese	Feb. 4, 1989 (in cooperation with "P.L.F."/Tal'at Ya'qub faction Feb. 24, 1989 Mar. 30, 1989 (in cooperation with the "Lebanese Communist Party") May 27, 1989 (in cooperation with "P.L.F." Tal'at Ya'qub faction and "Hizballah"
"D.F.L.P." (Headed by Nayef Hawatmeh) "Democratic Front for the Liberation of Palestine".	3	Lebanese Lebanese Lebanese	Feb. 23, 1989 Mar. 2, 1989 Jun. 4, 1989
"P.L.F." (Headed by Mahmoud Zridan "Abu Abbas") "Palestine Liberation Front".	1	Lebanese	Oct. 6, 1989 (The organization took responsibility for the attack in "Al Nahar", Beirut Oct 9, 1989).

LIST OF INFILTRATION ATTEMPTS—Continued

Organization	Attacks	Borders	Dates
"P.S.F." (Headed by Samir Ghosheh) "Palestine Struggle Front".	2	Lebanese via Sea Lebanese via Sea	Dec. 26, 1989 Apr. 8, 1989
"P.L.F." (Tal'at Ya'qub faction headed by Yousef Al Miqdah "Palestine Liberation Front".	3	Lebanese .... Jordanian .... Lebanese	Dec. 26, 1989 Mar. 13, 1989 Aug. 1, 1989
		And additional two in cooperation with P.L.F.P (Feb. 4, 1989; May 27, 1989)	

MURDER OF PALESTINIANS UNDER P.L.O'S "UNIFIED COMMAND" DIRECTIVES SINCE DECEMBER 15, 1988

Since December 15, 1988 one hundred and twenty five Arab residents of Judea, Samaria and Gaza were murdered by the "Hit Squads" operating under the directives of P.L.O.'s "Unified Command" in these territories.

In the leaflets issued by this organ (which consists of delegates from the major organizations of P.L.O.)—dates are determined for the "escalation of attacks" against "collaborators" "civil administration officials" and "municipal committees".

These murders serve the P.L.O. as a means of preventing Palestinian public figures from moving in the direction of peace. These victims serve as a warning to others not to deviate from the P.L.O. line.

Among the victims are Civil Administration workers, Mayors or municipality workers, council workers and Mukhtars, Health Department band Hospital workers, Arabs working in Israel or trading with Israelis etc.

Arafat himself threatened "any Palestinian leader who proposes an end to the Intifada" that he "exposes himself to the bullets of his own people and endangers his life. The P.L.O. will know how to deal with him". (Radio Monte Carlo, Jan. 2, 1989 and Al-Qabas, Kuwait Jan. 1, 1989).

This threat was specifically aimed at the well-known Mayor of Bethlehem, Elias Freij, who only suggested a few days earlier that there be a "ceasefire" between Israel and the Palestinians, in the territories.

Arafat (in a press conference in Amman/ Jordan according to A.P Aug. 22, 1989 and in interviews in "Al-Qabas", Kuwait, Oct. 11, 1989 and in "Al-Ray", Jordan. Oct. 10, 1989) Abu Iyad (in a press conference in Tunis according to A.F.P Aug. 29, 1989) and Basam Abu-Sharif (in an interview to the B.B.C/Arabic service and in the Arab weekly "Al-Dustur" Sept. 19, 1989)—all took responsibility for these murders in the name of P.L.O., and justified them.

ATTACKS BY MOLOTOV COCKTAILS ON ISRAELI PUBLIC BUSES UNDER P.L.O.'S "UNIFIED COMMAND" DIRECTIVES SINCE DECEMBER 15, 1988

Since December 15, 1988 thirteen Israeli public buses were burnt as a result of repeated attacks by use of Molotov Cocktails. In the leaflets issued by P.L.O.'s "Unified Command", dates are determined for intensive attacks of this type.

On October 30, 1988 a woman and her three infant children were burnt to death as a result of a Molotov Cocktail attack on a civilian bus en route from Beit Shean to Jerusalem.

Arafat justified this attack in the Saudi Arabian newspaper Al-Majallah (on April 5, 1989) saying that the attack was carried out by way of a Molotov Cocktail rather than a gun.

KNIFE ATTACKS UNDER P.L.O.'S "UNIFIED COMMAND" DIRECTIVES SINCE DECEMBER 15, 1988

Since December 15, 1988 five Israelis (all civilians) were murdered in stabbing attacks (and 16 others were injured).

In the leaflets issued by P.L.O.'s "Unified Command" dates are determined for attacks of this type.

On March 21, 1989 an Israeli doctor, M. Schelinger (age 75) was stabbed to death by an Arab resident of Gaza, while walking on Bin-Nun Street in Tel-Aviv. Two other civilians were injured.

On May 3, 1989 two elderly Israeli pensioners, K. Vardy and N. Levi, were stabbed to death while sitting at a bus stop in the center of West Jerusalem, by an Arab resident of Ramallah. Four other civilians (including a woman) were severely injured.

In an interview with Radio Monte Carlo on May 4, 1989 Arafat related to these murders, stating: "We shall continue wave after wave until the Palestinian flag will fly over Jerusalem".

On July 14, 1989 an Israeli construction company owner Z. Schlein (age 60) was murdered in the village of Gan-Yavneh near the town of Ashdod, by two Arab residents of Gaza, member of a local "Fatah" cell.

On September 7, 1989 a building laborer, M. Eshtamkar, was stabbed to death at his working place in the center of Tel-Aviv by his collegue, an Arab resident of Ramallah (who two days later committed a knife attack on a civilian bus driver en route from Tel Aviv to Jerusalem in order to roll the bus over into a deep ravine, for the second time within one month).

Enclosed (in the appendix) are some examples of P.L.O.'s leaflets directives regarding murder of Palestinians, stabbing and Molotov Cocktails attacks.

P.L.O.'S UNDERSTANDING OF ITS COMMITMENT TO THE "GENEVA DECLARATION" REGARDING TERRORISM

Arafat has reiterated again and again that he has "neither changed his policy nor submitted to the American demands" ("AlQabas", Dec. 21, 1988).

When asked, on April 1989, about the infiltration attempts by P.L.O. in South Lebanon and whether he opposes such acts he said: "I want to stress that the P.L.O. gave no promise nor made any agreement to stop military actions in Southern Lebanon". (Al-Majallah Apr. 5, 1989).

In a statement he made to the Emirate of Dubay television on Mar. 3, 1989 one day after the D.F.L.P. infiltration attempt—and again to A.P. on Jul. 6, 1989, Arafat declared that the attacks will continue; "The P.L.O. will not stop the armed struggle" he said "and I did not ask anybody to refrain from military operations".

Abu Iyad (Salah Khalaf) also stated, that it is "unthinkable" that anyone will demand that the P.L.O "put down its guns" (Agence France Presse Dec. 18, 1988), and stressed that "the P.L.O has never obligated itself to stop the armed struggle, and it shall not renounce it" (Al-Jazirah, Mar. 9, 1989 and to the U.A.E. daily "Al-Ittihad" Aug. 17, 1989).

He further clarified that "Arafat's declaration in Geneva did not relate to military targets, and if Reagan thinks that such attacks will be stopped—then the dialogue with P.L.O should be terminated immediately, because the attacks will continue until the flag of Palestine will fly over Jerusalem" (Reuter's Dec. 17, 1989).

A few days after the "P.F.L.P" and "D.F.L.P" infiltration attempts of February 1989 Farouq Al-Qadduni, Head of the Political Department of P.L.O declared that "the P.L.O is not ready to condemn any operation for which Palestinian organization and factions had taken responsibility" (Al-Sharq al-Awsat and Reuter's Feb 28, 1989).

In several interviews, Abu Iyad drew a distinction between the murder of old men, women and children and attacks on military targets (Al-Qabas and Der Spiegel Jan. 5, 1988; Radio Monte Carlo Mar. 4, 1989; Al-Jazirah Mar. 9, 1989 and "Al-Majallah" Mar. 1, 1989), stating: "We informed the U.S. of our definition of terrorism. It is an act in which civilians of any nationality, including Israelis, are killed". (Radio Monte carlo, Mar. 4, 1989).

But on Feb. 2, 1989 he made a contradictory statement in which he referred to the "Fatah" border attack of Mar. 7, 1988 (in which a public bus was hijacked and three civilians, two of them women, were murdered)—as a military operation, and stated that such operations will continue:

"The P.L.O. has decided to build up its range of military operations in the occupied land. We have a conception with regard to military operations; such operations are executed in specified zones like the "Dimona operation". As for operations of the sky-jacking type—these will not be currently executed".

In none of the above mentioned cases has Arafat or his lieutenants disassociated themselves from these actions or moved to expel the individuals or organizations involved from the P.L.O., or attempted any kind of disciplinary action—as demanded by the U.S.

The recent Tel-Aviv-Jerusalem bus terrorist action of Jul. 6, 1989 demonstrates P.L.O.'s understanding of its commitment in this respect.

On Jul. 6, 1989 an Arab resident of Gaza, named Abd al-Hadi Suleiman Ghanayem, while as a passenger on the Tel-Aviv-Jerusalem bus, over-powered the driver and forced the bus off the highway into a deep ravine.

The bus burst into flames; sixteen people were killed (among them an American woman) and 25 were injured (among them seven American citizens).

The "Islamic Jihad" took responsibility for the incident.

P.L.O.'s news agency ("Wafa") qualified the attack (on Jul. 9, 1989) as "an heroic act of a new type".

Arafat's political advisor, Basam Abu Sharif, claimed on Radio Monte Carlo on the day of the attack, that this was not a terrorist act but "a natural human reaction".

P.L.O.'s Radio broadcast from Bagdad, on Jul. 12, 1989 also qualified the attack as an "heroic act", and stated:

"The act has proven that the Zionist entity is a foreign implant and intruder in this region". It further declared that "The Jewish entity has no right to exist"; "It is

an entity beyond the realm of history and reason, and beyond the long standing established realities of this part of the world".

The "Fatah" Conference Resolutions (of August 1989).

On Aug. 8, 1989 the "Fatah" Conference passed new resolutions which contradict, still further, Arafat's "Geneva Declaration"—:

Resolution No. 5 calls for the "continuation, intensification and escalation of the armed struggle in order to liquidate the Zionist occupation of our Palestinian land".

Resolution No. 13 establishes a special committee for the prevention of immigration of Jews to Israel.

Appendixes

The P.L.O.'s "Palestine Liberation Front" Faction Led by "Abu Abbas" Takes Responsibility for an Attempted Terror Raid on Kibbutz Misgav-Am (Oct. 6, 1989)

"Al-Nahar" (Lebanon), 9 October 1989.

"The 'Palestine Liberation Front" announced that a squad belonging to the "Unit of Nahariya Martyrs" was intercepted on 7 October 1989 by a joint patrol of Israeli forces and the South Lebanese Army near the town of Al-Taibeh.

The squad was on its way to attack Misgav Am.

The squad fought the force for some time, using machine guns and anti tanks missiles, and thereby causing the disabling of an armored personnel carrier and casualties among the men on it.

The "Front" announced that its fighters "succeeded" in forcing a way open for themselves and withdrew towards Wadi Al-Litani".

Leaflet Found With Terrorists of the "Palestine Liberation Front"/"Abu Abbas" Faction on Their Infiltration Attempt of Oct. 6, 1989

THE PALESTINE LIBERATION FRONT

The measures of oppression and terrorism which you use against our masses in the occupied land only strengthen our resolution to confront you.

Here we are, the fighting men of the Palestine Liberation Front from the unit (named in honor) of the martyr commander Faud Zeiden Abu Al-Umreyn, coming with full resolution and intention to confront you in order to fight you on the soil of our homeland which you defile with your occupation, and to remove the hardships suffered by our people who are persevering and standing fast against you, and to prove to you once again that the capacity of the Palestinian figher is capable of reaching into your own home, whatever scientific measures you may use to prevent us from reaching our occupied land, (you will find that) our will and resolution are stronger than these preventive measures.

SOLDIERS OF ISRAEL

Our right to Palestine is an historical right which is confirmed by all conventions and laws, so go away from it, and if not, it will forever be burning under your feet.

Dispatch From a "Fatah" Operative in Jordan to Recruits in the Territories to Commit Acts of Terrorism Under the Name of "The Eagles of the Revolution" (August 18, 1989)

In the name of Allah the Compassionate and Merciful

To the rebel brother Abu Zaitun Bilal,

[A series of greetings]

You know that I went to Tunis and the messenger came while I was staying there, and therefore he was delayed. When I returned to Jordan I found that not even a cent was left. However, within a night, I obtained money and at the nearest opportunity ten thousand dollars or ten thousand dinars will reach you. But I requested that there be dinars, and I hope that so it shall be and the matter will not last long. Believe me that I asked for you the amount that you requested, but the lack of money is the basic reason [for the delay].

As to the military activity, we want it to take place on two levels: the first against agents, as you made clear in your letter, and we want you to focus on a few undesirable figures, such as Kamal Al-Wahidi, Gamal Al-Bilawi, Al-Abd Salaha who was shot in the past, Hanan Halifa who lives in the area of Al-Jadida near the home of the al-Ziara family, and in addition the man who was found in the orchard of Abu Sharkh, and the owner of the cafe near the prison, Abu Kamal, with whom intelligence officials meet. The second level will be against the enemy directly, such as with hand grenades. You may buy grenade if you can, for it is most vital during this period.

We want, after every killing of an agent, that you send to the press communication offices a letter in which you will write that the "Eagles of the Revolution" movement put the agent on trial and that he was shot and executed, having been judged by the people for having collaborated with the enemy. The letter must be written with the left hand and must not have any fingerprints on it so that [its writer] will not be exposed.

We want you to act in this manner so that we will not cast responsibility for that act on the Organization [the P.L.O.] under these circumstances due to the negotiations which are taking place with the United States on political matters.

Also in military activity against the enemy, one must write [sign] in the same name and only one sentence, [i.e.]: The "Eagles of the Revolution" movement carried out the armed attack against the [vehicle] of the enemy and destroyed it, etc.

We do not want anyone to know who delivered the letter [to the media] or who asked the office to deliver it or who sent it to the agency of the world press.

Brothers, as for the liquidations we hope that you will exercise great caution on this level, and first of all that there will be names suggested [that will be dealt with] who are well known to people, so that we will not be accused and no excuse will be given to people to talk about anarchy.

There is a man by the name of Abdallah Al-Husein, who lives opposite Al-Nur, who is one of the greatest drug dealers. It is very important that you be careful, and try to liquidate the people who are known to be agents, and not people who only you know, for that is insufficient, and it is important that the people known them, so that they will not have doubts about [the value] of your action.

We want, my brothers, for you to make sure that also the military activity against

the enemy will continue, and that the squads will be composed of one person or two, that every person or every squad will be assigned to carry out [an action] against [specific] official targets.

(Area chart and designated sites in the Gaza district in which arms and combat equipment are stashed.)

My brothers, I do not want to obligate you in terms of the scanty communications with us. [However] there is no need for the messenger to arrive at the office, for everyone comes there; the agent as well as the [loyal] nationalist come there. The current messenger knows the telephone number and it is the second [number]: 832117. The messenger should guard it well, should call and stay at a distance from the office so as to safeguard his security and the security of the entire squad.

We strengthen your hands and highly value your position, and we are determined in our decision to continue along the path.

My brothers, there were good decisions at the Conference [the "Fatah" Conference of Aug. 1989] for new leaders as well as new blood emerged in the movement in the "Central Committee" and in the "Revolutionary Council" during the movement's Conference.

We hope that this new [phenomenon] will be an expression of the glory of your struggle and the struggle of everyone for the liberation of the stolen land.

Revolution until victory, until victory, until victory.

Your Brother, Halim.

August 18, 1989.

"The Popular Front for the Liberation of Palestine" (George Habash) Claims Responsibility for the Attack on the Settlement of Maoz Haim (On August 7, 1989)

1. In a declaration of the "Popular Front" organization today (August 8, 1989), it was said that the organization yesterday fired two rockets from Jordanian territory towards the settlement Maoz Haim. The attack resulted in the wounding of a number of Israelis. "The occupation forces launched flares and searched in the area for our fighters." The declaration stated that the terrorists returned safely to their base, after achieving all the mission's goals. (Reuter in Damascus, August 8, 1989)

2. "The Popular Front for the Liberation of Palestine" announced that a squad of its fighters on the Jordanian border shelled on August 8 the settlement of Maoz Haim. The announcement added that the rockets hit their targets accurately and that all the members of the squad returned to their bases safely. (Radio Monte Carlo, August 8, 1989)

3. The military spokesman of the "Popular Front" organization (George Habash) said on August 8 in Damascus that the squad named after the martyr, Jabar Amar (of the Popular Front), fired from the Jordanian border, on the night of August 7-8, two rockets on Maoz Haim. (Kuwait News Agency, August 8, 1989)

The Arrest of Terrorists Who Are Members of the "Popular Front for the Liberation of Palestine" (George Habash) for Firing Katyusha Rockets Towards Maoz Haim on August 8, 1989

1. Reuters reports, based on official Jordanian sources, that Jordan arrested on October 5 a number of people who are members of the "Popular Front" (George Habash) for the firing of Katyusha rockets into Israel on September 7, 1989. (Radio Monte Carlo, October 5, 1989)

2. A reliable source stated, on October 6, that a number of people belonging to the Jordanian faction of the "Popular Front for the Liberation of Palestine" (George Habash) were arrested on the night between October 4-5 in Amman by the Jordanian authorities. A source close to the Popular Front in Amman added that 8 members of the Front were arrested, among them two who were responsible for the Jordanian faction, Hamdi Matar (Abu Samir) and Azmi Khounjah (Abu Issam). The six others who were arrested are—according to the same source—Ahmed Dahbur, Abu Muhammad Almragha, Ahmed Almahsiri, Majd Alkhouajah, Abbu Klfah and Nabil Najem. (Agence France Presse, October 6, 1989)

3. It is reported that a number of members of the "Popular Front" (George Habash) were arrested today in Jordan in connection with the firing of Katyushas on Israel from Jordanian territory on September 7.

4. Diplomats reported that between 7 to 17 members of the organization were arrested. (Reuter from Amman, October 5, 1989)

Examples of P.L.O.'s "Unified Command" 's Directives to Attack Arab Civilians in Judea, Samaria and Gaza and to use Molotov Cocktails and Knives

Leaflet 34, February 11, 1989:

The 13th of February is set as the day of escalating attacks on the collaborators, traitors, the Cadre of (Arab) workers in the Civil Administration, and members of Local Municipal Councils.

Leaflet 39, April 30, 1989:

May 13, 1989, is set as a special day for the escalation of attacks and confrontations with Molotov Cocktails and knives.

Leaflet 41, June 11, 1989:

June 19 and 20, 1989, are set as days for the escalation of the struggle by way of increased use of Molotov Cocktails and knives.

B. Terrorist Activities by "Fatah" Inside Israel (in its pre- 67 borders) and Abroad - Post Arafat's "Cairo Declaration" of Nov. 1985

INTERNATIONAL TERRORISM

Terrorist activities were carried out by "Fatah" members in several countries. The major cases to be mentioned are:

Apr. 2, 1986—Four passengers were killed and ten injured in an explosion on a T.W.A. airliner on its flight from Rome to Athens. (Among the victims were a woman and her child who were sucked out of the plane). The perpetrators were members of the "Fatah"/"Hawari Apparatus".

Aug. 22, 1986—Four members of the "Fatah"/"Hawari Apparatus", armed with explosives, were arrested in Casablanca, planning to attack Jewish targets while Israeli Prime Minister (at the time Shimon Peres) was visiting Morocco.

July 22, 1987—A Palestinian cartoonist working in the Kuwayti newspaper "Al-

Qabas", was murdered in London by members of the Fatah/"Force 17" apparatus.

CROSS-BORDER ATTACKS

Fifteen infiltration attempts across Israel's borders were made during 1988 by "Fatah" members for the purpose of attacking Israeli communities. Thirteen attempts were made from the northern border and two from the Egyptian border.

In one of these attacks, a group of "Fatah" terrorists succeeded in penetrating the southern border near Mount Harif in the Negev, hijacked a public bus, murdered two women and a man, and injured another eight passengers—all civilians.

It is worth noting that 1988 was a peak year in "Fatah's" attempts to attack Israel across its borders.

TERRORIST ATTACKS WITHIN ISRAEL—CAR BOMBS

Three car bombs were placed during the above-mentioned period by "Fatah" members, but discovered prior to explosion.

The first was discovered in Hebron, on February 1986. It was intended to explode in the Beer-Sheva market.

The second was found in Jerusalem on March 3, 1988, aimed at Secretary of State G. Shultz who was visiting the area at the time.

"Fatah" took responsibility for the act.

The third car-bomb containing two gallons of gas exploded in a car park in the town of Kfar Saba, in March 1988.

HAND-GRENADES

In October 1986 hand-grenades were thrown at the "western Wall;" causing one death and 67 injuries.

In October 1987 a hand-grenade was thrown at the Carmel-Center of Haifa (but failed to explode).

In August 1988 a hand-grenade was thrown at the "Nordau Mall", in the center of Haifa, injuring 25 people (including children).

MOLOTOV COCKTAILS

During March and April of 1988 Molotov Cocktails were thrown at public buses near Kibbutz "Sha'ar Ha'amakim" by Arab Israelis, members of "Fatah".

EXPLOSIVE DEVICES

Explosive devices were placed by "Fatah" members during 1986 in a Jerusalem supermarket and at public bus stations in the city.

ATTEMPTED ASSASSINATION OF PRO-JORDANIAN PERSONALITIES

During 1986 attempts were made by "Fatah" member in order to assassinate Zahran Hassuna, Mayor of Kabatia, and Farida Esheid, relative to the Royal Jordanian family.

MURDERS

In March 1987 a Jewish resident of Ramleh was murdered by a member of the "Fatah"/"Force 17" apparatus.

In May 1988 an elderly Jewish woman (a holocaust survivor) was murdered in her home at the village of Shafir near the town of Kiryat Malachi, by members of the "Shabibah"—"Fatah's" youth movement.

Report Pursuant of Title VIII of Public Law 101-246
(Foreign Relations Authorization Act,
Fiscal Years 1990 and 1991)

PLO COMMITMENTS COMPLIANCE ACT
Report on Nine Attempted Incursions

BACKGROUND

Section 804 (a) provides that if talks are held with the PLO after the date of enactment, the State Department shall report 30 days after the next round of such talks on any PLO accounting of the nine attempted incursions described below:

1. 12/26/88 Popular Struggle Front (PSF) boat infiltration attempt

2. 12/28/88 Palestine Liberation Front (PLF) armed infiltration attempt

3. 1/24/89 PLF attack on Israeli patrol in south Lebanon

4. 2/5/89 PLF/Popular Front for the Liberation of Palestine (PFLP) armed infiltration attempt

5. 2/23/89 Democratic Front for the Liberation of Palestine (DFLP) attempted attack on targets in Israel

6. 2/27/89 PFLP ambush of Israeli-backed SLA military vehicle

7. 3/2/89 DFLP armed infiltration attempt

8. 3/13/89 PLF armed infiltration attempt

9. 3/15/89 Islamic Jihad attempted attack on Israel through Gaza

ANALYSIS OF INCIDENTS

Of the nine incidents, five involve groups not represented on the PLO Executive Committee, i.e. 1,2,3,8, and 9. (The PLF group cited is the Tal'at Yacub faction of the PLF, not the Abbas faction represented on the PLO Executive Committee.) These groups are not bound by commitments undertaken in December 1988 and are opposed to PLO policies. We have not asked the PLO about these attacks because the PLO was not involved.

In the February 27, 1989 incident cited, a landmine was detonated in southern Lebanon near a vehicle driven by Lebanese members of the Israeli-backed South Lebanon Army (SLA) inside Israel's self-declared "security zone." The Popula Front for the Liberation of Palestine (PFLP) claimed responsibility for the incident, which circumstances suggest was not aimed at infiltrating Israel. The PFLP did not claim that it was aimed at infiltrating Israel, nor do we have specific information about the identities of the persons who planted the explosive device. We have not asked the PLO about this incident.

We have raised the other three incidents with the PLO through our dialogue in Tunis. The February 5, 1989

incident involved Israeli forces killing five guerrillas in the "security zone" in Lebanon. The February 23, 1989 incident involved Israeli forces intercepting three guerrillas in Lebanon three miles north of the Israeli border. In both cases, all of the guerrillas were killed. In the March 2, 1989 attempt, five guerrillas were intercepted, of whom four were killed while the other escaped. None of the guerrillas penetrated the Israeli border.

The targets of these three attacks were unclear, although the Israelis suggested the groups may have been trying to infiltrate Israel. The Democratic Front for the Liberation of Palestine (DFLP), in an announcement after the March 2 incident, said:

> "The DFLP has claimed responsibility for the operation. A spokesman for the front said a fedayeen group from the intifada martyrs unit had carried out Operation Holy Jerusalem No 2 along the road leading to the Zionist settlement of Zar'it. The spokesman said a big battle took place between the fedayeen and the occupation troops, leaving four members of the unit martyred. The spokesman added that Israeli helicopters landed at the scene of the battle to evacuate the casualties among the Israeli soldiers."

The PLO, in public as well as in our dialogue, has indicated that Palestinians in the refugee camps in Lebanon are generally angry and frustrated at Israeli raids against the camps in Lebanon. The PLO maintains that groups opposing the dialogue, or certain aspects of it, capitalize on such sentiments to mount attacks in order to undermine PLO policies. They also point out, through our dialogue, the perception of some Palestinians that the U.S. is using the dialogue as a delaying tactic to give Israel time to crush the intifada. Finally, the PLO says the situation in Lebanon is chaotic and thus the organization is not able to exercise the sort of control it had in 1981 when it prevented cross-border attacks.

The PLO also continues to assert its right to engage in "armed struggle." Salah Khalaf (Abu Iyad), in a March 1, 1989 interview in London's Al-Majallah, said:

> "There is a difference between terrorism and legitimate struggle as stipulated by the UN Charter. As far as we are concerned, and while we condemn and repudiate terrorism, we adhere to our right to resist the occupation of our territory -- a right that no quarter can make us give up so long as Israel has still not withdrawn from the occupied territories. And I must here point out that we do not agree to any operations aimed at civilians...We are for the legitimate right to struggle for the sake of liberation."

We have told the PLO that such incidents raise serious questions about the PLO's commitment to pursue a peaceful solution to the Arab-Israeli conflict, and make it more difficult for Israel to take PLO commitments seriously. We have made clear that we do not condone such attacks. We are disappointed that the PLO has not found a more authoritative way to distance or disassociate itself from activities undertaken by constituent groups acting independently without the organization's official sanction. We think it important they do so.

CONCLUSION

It is the Administration's position that the PLO has adhered to its commitment undertaken in 1988 to renounce terrorism. One problem area has been some actions undertaken by Damascus-based PLO groups such as the PFLP and DFLP. We have no evidence that these actions were authorized or approved by the PLO Executive Committee or Arafat personally.

The PLO is a loosely-structured organization composed of disparate elements with different views, some of which are aided by governments, such as Syria, which oppose our peace process. The PLO continues to suffer from these deficiencies in controlling all of its constituent groups, especially those which oppose aspects of current PLO policy and carry out cross-border attacks. These are not reasons to excuse PLO activities or to relax our vigilance. On the contrary, we have told the PLO we will hold them to their commitments, and we continue to examine all incidents on a case-by-case basis.

Report Pursuant of Title VIII of Public Law 101-246
(Foreign Relations Authorization Act,
Fiscal Years 1990 and 1991)

PLO COMMITMENTS COMPLIANCE ACT
Report on PLO Compliance

BACKGROUND

In 1988, the PLO changed its position and accepted the three conditions for dialogue with the U.S. -- renunciation of terrorism, recognition of Israel's right to exist, and acceptance of U.N. Security Council Resolutions 242 and 338 as the basis of negotiations for a comprehensive settlement. It was and remains our intention to hold the PLO to the commitments it undertook in December 1988, and it is in the best interests of the United States that the PLO abide by its December statements, thus permitting the dialogue to continue.

Since December 1988, we have had numerous discussions with PLO representatives in Tunis. Ambassador Pelletreau is our channel for communication with the PLO.

We do not view the dialogue with the PLO as an end in itself. Rather, it is a means to move the PLO to give practical application to the commitments it undertook in December 1988, including its renunciation of terrorism. We have used our dialogue to see if the PLO was willing to go along with a realistic approach to peace.

THE PLO AND ALLEGATIONS OF TERRORISM

We monitor PLO activities closely with the clear intention of holding the PLO to its commitments. It is the Administration's position that the PLO has adhered to its commitment undertaken in 1988 to renounce terrorism.

The PLO is a loosely-structured organization composed of disparate elements with different views, some of which are aided by governments, such as Syria, who oppose the peace process. The PLO continues to suffer from deficiences in

controlling all of its constituent groups, especially those which oppose current PLO policy and carry out cross-border attacks. These deficiencies are not reasons to excuse PLO activities or to relax our vigilance. On the contrary, we have told the PLO we will hold them to their commitments, and we continue to examine all incidents on a case-by-case basis.

Since December 1988, there have been almost thirty border and rocket attacks by Palestinian groups against Israel, at least nine of which have involved constituent groups of the PLO. In most cases, the intended target of the attack was unclear, but there were three instances in which civilians appeared to be the target:

1. May 28, 1989 -- Israeli forces engaged a small group of Palestinian infiltrators in southern Lebanon. Apparently to coincide with this ground raid, three katyusha rockets were fired in the direction of the Israeli border town of Metulla. An Israeli child was lightly wounded in the rocket attack. The Popular Front for the Liberation of Palestine (PFLP) and the Palestine Liberation Front (PLF), Yacub faction (a non-PLO group), claimed responsibility in Beirut.

2. August 7, 1989 -- A border attack was foiled inside Jordan. Apparently believing that the attack had taken place, the PFLP issued a statement broadcast on Monte Carlo radio claiming it had shelled the Israeli border town of Ma'oz Hayyim.

3. September 7, 1989 -- At least three katyusha rockets were fired from northern Jordan toward Israel. Two impacted near the Israeli town of Sha'ar Ha Golan, causing no damage or injuries; a third landed in Jordan. Radio Monte Carlo reported that the PFLP claimed responsibility in a telephone call from Damascus. The PFLP said Sha'ar Ha Golan was the intended target.

We review thoroughly all reports and allegations of PLO involvement in terrorism through an inter-agency process and did so in the three cases cited above. We have no evidence in those cases or any others that the actions were authorized or approved by the PLO Executive Committee or by Arafat personally. Moreover, none of the three attacks cited above was launched by Arafat's Fatah organization, the Democratic Front for the Liberation of Palestine (DFLP), the Arab Liberation Front (ALF), or the Palestine Liberation Front (PLF), Abu Abbas faction. Nonetheless, in each case where PLO constituent groups were involved, we have made it clear to the PLO that these activities raise serious questions about the PLO's commitment to renounce terrorism.

We are disappointed that the PLO has not found a more authoritative way to distance or disassociate itself from activities undertaken by constituent groups acting independently without the organization's official sanction. We think it important they do so.

On February 5, 1990, unknown terrorists attacked an Israeli tourist bus in Egypt. The investigation is continuing. Two groups have publicly claimed reponsibility for the attack: the previously unknown "Organization for the Defense of the Oppressed of Egypt's Prisons" and the Palestinian Islamic Jihad. Neither is a member of the PLO.

While we continue to evaluate information on the activities of Force 17 and the Hawari group, we have no

independent evidence that they have carried out any terrorist activities since December 1988. They have not been disbanded.

The issue of whether the PLO would provide compensation to the American victims or the families of American victims of PLO terrorism has not been raised with the PLO.

We currently have an extradition request with the government of Greece for the alleged terrorist Muhammad Rashid. Rashid is charged with bombing a Pan Am jet in 1982 in which one person was killed. While there have been press reports that the PLO has tried to persuade the Greek government not to extradite Rashid, Arafat said the PLO "would not interfere in the internal affairs of Greece if the Government decided to extradite Muhammad Rashid to the United States," according to press reports when Arafat visited Greece in January 1989.

There is no current U.S. extradition request for Muhammad Abbas (Abu Abbas) because there are no pending U.S. criminal charges against him.

PLO AND THE INTIFADA

We do not believe that the PLO was responsible for starting the intifada. Since its inception, the intifada has been directed by indigenous elements who look to the PLO for political support and coordination, but who operate, by and large, independently on a day to day basis. Most of the Palestinians with whom we talk in the West Bank and Gaza tell us the PLO represents their aspirations. The PLO supports the continuation of the intifada as a means of pressuring Israel to withdraw from the territories occupied in 1967.

In 1989, there was an alarming increase in violence by Palestinians against other Palestinians. This is a new and very worrisome development and could bolster the influence of radicals. (See the 1989 Human Rights Report.)

THE PLO COVENANT

The PLO has not amended or repealed provisions in the 1968 Palestinian National Covenant which call for the "elimination of Zionism in Palestine." According to the PLO, procedures under Article 33 of the Covenant require a full meeting of the Palestine National Council to amend or repeal any of its provisions. At present the PLO is willing to consider revising the Covenant only in the context of a comprehensive peace settlement.

PLO Chairman Arafat on May 2, 1989 told a Paris press conference, after his meeting with French President Mitterrand, that the Charter was superseded or null and void (caduque in French). Several other Palestinian leaders denounced Arafat for unilaterally suspending the Charter, while other Palestinian leaders claimed the Covenant has been overtaken by more recent PNC resolutions.

While we did not condition beginning or maintaining our dialogue on the PLO taking any such action, we have told the PLO that the Convenant should be amended. It is the U.S. view that amending this document would be a powerful and very important signal of the PLO's interest in peace with Israel.

PLO STATEMENTS

PLO official statements have been generally consistent with the commitments undertaken by Arafat in December 1988. Regarding statements by constituent factions and individual members, we have evaluated only statements by individuals or groups on whose behalf Arafat accepted the commitments.

The PLO Central Council in mid-October 1989 is the latest general meeting for which we have evidence of the PLO's stand. The Central Council statement said:

> "The Casablanca resolutions (i.e., the 1989 Arab League summit held in Casablanca) reflected Arab support for the Palestinian cause and for the PLO and its policy.
>
> The Arab summit's adoption of the Palestinian peace plan -- which is based on the resolutions of the Palestine National Council -- gave an important Arab dimension to these resolutions on the international scene..(the) policy adopted by the PLO leadership on the basis of the PNC resolutions in Algiers; and the Palestinian peace initiative produced by this policy and unleashed by brother President Yasir Arafat in his speech before the United Nations in Geneva opened the way for the group of achievements that were scored."

In its most recent meeting which ended on February 3, 1990, the PLO Executive Committee expressed adherence to "the decisions adopted during the Palestine National Council's (PNC) 19th session, the Palestinian peace initiative, the declaration of independence." The Executive Committee also said:

> "As for the dialogue between representatives of the PLO and the Israeli Government, the Executive Committee is committed to the PNC decisions in this regard....The PLO Executive Committee also affirms its commitment to the dialogue, provided it takes place with an open agenda and under international supervision."

Although official PLO statements have been generally consistent in reaffirming the substance of the PLO "peace initiative" adopted in late 1988, since that time there have been numerous examples of contradictory and ambiguous statements by leading PLO officials and constituent groups. Such statements only serve to rekindle doubts about the PLO's ultimate intentions. For example, in a February 8, 1990 interview with Reuter, Salah Khalaf (Abu Iyad) said Israel should expect more attacks in the face of Israeli government "intransigence." On February 11, 1990, in another Reuter interview, he added that the PLO was against terrorism and the killing of innocent civilians, whether they were Israelis or Palestinians. In a February 20, 1990 interview reported in the Kuwaiti press, Khalaf was specifically asked about his earlier remarks. He said, "If the path of settlement remains as it is many similar operations will take place...Israeli extremism will face another extremism -- Palestinian, Arab, or Islamic."

A January 19, 1990 article in the Boston Globe reported that PLO "foreign minister" Faruq Qaddumi stated he did not accept Israel's right to exist and "what we accept today we will not accept tomorrow." We raised the issue in our dialogue with the PLO, and before we had a chance to express outrage over this statement, were told that the remarks attributed to Mr. Qaddumi were wrong.

Arafat, in a February 1990 letter to a Jerusalem peace conference, said the PLO approved the idea of dialogue between representatives of Israel and Palestinians. Arafat also indicated that the Palestinian right of return could be included in issues for negotiation. Arafat affirmed the right of all people to free movement and travel, but said the right of Soviet Jewish immigrants had limitations, ending "where other peoples' rights begin. The other people in this case are Palestinians. They too have a right to live in their homeland." Arafat also said:

> "There is a historic opportunity before our region to achieve peace. Waste not the opportunity, because delay and procrastination mean that years of destruction, death, and tragedies will pass before other appropriate opportunities arise. Peace is inevitable. Peace here, here. Peace now, now. Peace for us, peace for you, peace for our and your children; for our and your women. Peace for a future in which we build, not demolish. Peace for the land of peace, the land of prophets and messengers. Peace of prophets and messengers."

Arafat is extremely critical of Israeli leaders. An announcer-read statement attributed to Arafat on Voice of Palestine in North Yemen on June 8, 1989 hailed Palestinians who are "confronting the occupier enemy with tireless determination and an inflexible will." The statement denounced Israeli leaders who "founder in the dark labyrinths of discrimination, racism, blind bigotry, and backwardness."

The two official documents from the Fatah General Congress of August 1989, a "political program" adopted on August 8 and broadcast the next day by PLO radio Baghdad, and a "final political statement" broadcast by the same source on August 12, treat Israel differently. The first document called for continuation of "armed struggle" and had harsh anti-Israeli rhetoric:

> "The Zionist conquest came at the beginning of this century to uproot the Palestinian people, end their civilization, and implant a Zionist entity designed to carry out the imperialist schemes that seek to control the Arab homeland's resources and make this homeland a part of the colonialist's spheres of influence. The Palestinian people have held out in the face of this Zionist-colonialist barbarism. The convoys of martyrs continued. Over the past 30 years, the Palestinian people have offered hundreds of thousands of martyrs, wounded and prisoners. The crime was consummated by the partition of Palestine and the establishment of the Zionist entity state in 1948."

Both statements use virtually identical language in saying that Fatah "affirms the historic importance of the resolutions of the (November 1988) 19th PNC session, particularly the document of independence." However, the final declaration was less strident and significantly shorter, omitting the historical prelude and most of the harsh rhetoric, i.e. mention of the "Zionist entity" and "Zionist-colonialist barbarism," contained in the earlier version. It underlines the need to "continue the dialogue with Israeli democratic forces," in contrast to the previous statement's call for dialogue only with those Israelis who recognized the PLO and the Palestinians' right to a state. The final statement adds a passage expressing its support for the "Palestinian peace initiative approved by the PNC...and declared by brother President Abu-Ammar (Yasser Arafat) before a UN meeting in

Geneva." The August 12 statement also adds that Fatah "denounces all forms of terrorism," although it notes that this applies particularly to "state terrorism." The earlier program only "condemned all terrorist Israeli practices."

Nayif Hawatmeh, head of the leftist DFLP, in a December 18, 1989 statement, supported the PLO Central Council resolutions:

> "We are prepared for a mutual declaration of recognition by the PLO and Israel. For Palestinians to recognize Israel, while Israel maintains an absolute denial of the Palestinian people's right to self-determination and statehood, is something unrealistic. We in the PLO are prepared to talk with the Government of Israel. The decision made by the Palestine Central Council in Baghdad in the middle of October clearly stated that the PLO is ready for direct negotiations with Israel."

PLO STATEMENTS ON TERRORISM

Several PLO leaders have reaffirmed the PLO's renunciation of terrorism. Salah Khalaf (Abu Iyad), in a November 25, 1989 interview, says:

> "When we endorsed our denunciation of terrorism and said we condemned all forms of terrorism, we meant this....Concerning the hostages, we contributed toward all the stages as much as we could and as much as the limits of our relations with the kidnappers allowed us to. We helped as much as we could. When we failed in an attempt, we did not hesitate to declare out loud that we were against the kidnapping of hostages. We consider that such acts are blackmail and are inhuman."

In a March 8, 1990 statement, Arafat's adviser, Bassam Abu Sharif, emphasized the need to give Israel security:

> "The Palestinians have declared and decided that they recognize Israel's right to live inside secure and internationally recognized borders and that peace and security of all the states of the region, including Israel and Palestine, must be guaranteed by the international community and more specifically by the United Nations and the Security Council permanent members. It is crystal clear for the whole world and for the Israelis themselves that the path leading to peace is free from any roundabouts or maneuvers."

The PLO asserts a distinction between "armed struggle" and "terrorism." For example, DFLP leader Hawatmeh stated, "We in the Democratic Front are opposed to guerrilla activities against civilians in Israel. The vast majority of military activities in Israel were aimed at military targets. The Israelis themselves admitted this. We are also against military actions outside the occupied Palestinian land. We were against hijacking planes, Munich, and Achille Lauro."

As well, Salaf Khalaf (Abu Iyad) said in a March 1, 1989 interview in the London Al Majallah:

> "There is a difference between terrorism and legitimate struggle as stipulated by the U.N. charter. As far as we are concerned, and while we condemn and repudiate terrorism, we adhere to our right to resist the occupation of our territory -- a right which no quarter can make us

> give up so long as Israel has still not withdrawn from the occupied territories. And I must point out that we do not agree to any operations aimed at civilians...We are for the legitimate right to struggle for the sake of liberation."

In this regard, PLO leaders support continuation of "armed struggle." PLO Executive Committee member Mahmud Abbas (Abu Mazin) said in a March 4, 1990 interview:

> (Interviewer) "Are you considering a resumption of the armed struggle?"
>
> (Abbas) "The word 'resumption' of the armed struggle gives the impression that we decided to stop it, which is not true."
>
> (Interviewer) "But it has stopped."
>
> (Abbas) "Stopping it for certain reasons does not mean excluding armed struggle from the Palestinian strategy."

PLO STATEMENTS ON THE "STRATEGY OF STAGES"

Recognition of Israel's right to exist, one of the three preconditions for beginning our dialogue with the PLO, and PLO advocacy of the two-state solution would appear to negate the "strategy of stages." Arafat, in his letter dated February 17, 1990 to the Jerusalem peace conference, stated:

> "We remain deeply convinced that the only real security guarantee for Israel lies in a peaceful settlement based on the termination of the Israeli occupation of the Palestinian and Arab territories and the acceptance of the two-state principle."

The PLO has called on all Arab states to support its peace initiative which calls for the recognition of Israel in the context of a two-state solution. Salaf Khalaf (Abu Iyad) is explicit in the Spring 1990 issue of Foreign Policy:

> "The proposal of a two-state solution to the Palestinian-Israeli problem is not the first phase of a plan to liquidate the Jewish state....The PNC's endorsement of the two-state solution supersedes the one-state objective mentioned in the Palestinian National Charter."

Nabil Sha'th, head of the PNC's political committee, in a March 2, 1990 interview, expressed his view of the territorial limits of a Palestinian state:

> "Here I find it necessary to clarify beyond any doubt: When we talk about a Palestinian state, we talk only about the West Bank, including Jerusalem and Gaza. We realize that there are Palestinian Israelis who live in Yafo, Haifa, and other places, and that there may be Palestinians who will be permitted to reunite with their families in these places. But then they would be Israeli citizens."

George Habash, Secretary General of the PFLP, broadcast over Voice of the Mountain in Arabic to Lebanon, June 9, 1989, his view of the "strategy of stages:"

(The goal of the intifada is) "the expulsion of the Zionist occupation from the West Bank and Gaza and the establishment of a Palestinian state there. Naturally, at this stage we cannot burden the intifada with more than it can bear. I mean we cannot burden the intifada with the responsibility for the liberation of all the Palestinian national soil. However, the establishment of a Palestinian state in the West Bank and Gaza will mark the beginning of the breakdown of the Zionist plan. We can rely on this breakdown to continue the struggle to achieve our full objective of liberating all the Palestinian national soil. Hence, the horizons of the intifada are vast. Above all, the intifada represents a new stage in the Palestinian national struggle and the Arab liberation struggle."

SUMMARY

Statements do matter; we are concerned about the public pronouncements of the PLO, PLO constituent groups, and its individual leaders. The PLO is a heterogeneous organization in which constituent groups and individuals often express opinions differing from the consensus of the PLO as an organization. Still, we continue to impress on PLO leaders that they must speak with one voice of their intent to seek a peaceful, negotiated solution.

The policy of this Administration is to measure PLO actions and statements against the commitments the PLO undertook in December 1988. President Reagan said when he announced that the PLO had met U.S. conditions for starting a dialogue, "The Palestine Liberation Organization today issued a statement in which it accepted...our conditions for a substantive dialogue. The PLO must live up to its statements. In particular, it must demonstrate that its renunciation of terrorism is persuasive and permanent." This remains the policy of this Administration.

Report Pursuant of Title VIII of Public Law 101-246
(Foreign Relations Authorization Act,
Fiscal Years 1990 and 1991)

PLO COMMITMENTS COMPLIANCE ACT
Report on Arab Policies Toward the Middle East Peace Process

SUMMARY AND BACKGROUND

The United States remains firmly committed to pursuing a comprehensive peace in the Middle East. Our policy is founded on longstanding principles: we seek a comprehensive peace achieved through direct negotiations based on U.N. Security Council resolutions 242 and 338; any settlement must provide for the security and recognition of all states in the region, including Israel, and for the legitimate political rights of the Palestinian people.

As part of our diplomatic efforts, we have worked over the years to foster peace between Israel and the Arab states and to translate what we believe is now implicit Arab state acceptance of Israel into explicit policies on their part.

It is clear that the attitudes of most Arab states have evolved from the "three no's" at the Khartoum summit in 1967 -- "no peace with Israel, no recognition of Israel, no negotiation with it" -- to a more pragmatic and positive approach. Some Arab states -- e.g., Egypt, Jordan, and Syria -- have indeed adjusted their policies to accept formal or informal arrangements with Israel.

No Arab state with the exception of Egypt has been willing to extend formal diplomatic recognition and conclude peace, and most Arab states continue to participate in activities designed to isolate Israel in the international community. We have worked hard both privately and publicly to convince the Arab states to stop these activities. We are disappointed that they have not been more responsive. We have asked each Arab state individually to follow the PLO's decision to recognize Israel's right to exist. We will continue to urge the Arab world to give explicit support peace with Israel and to undertake concrete actions and steps in this direction. This will give impetus to the peace process.

I. ARAB LEAGUE CONSENSUS AND MIDDLE EAST PEACE PROCESS

Arab policies can be traced through the Arab League, a twenty-two member regional organization of Arab states and the PLO, that occasionally meets at ministerial and summit levels to discuss and formulate common Arab policy on international issues. The League's decisions require consensus and unanimity. Theoretically, they represent binding policy decisions on all who endorse them.

The position of the Arab League regarding Israel has moderated significantly over the last ten years. There has been a clear evolution in the tone and substance of Arab League declarations with regard to Israel.

The first departure from the non-acceptance policies of the past came in the 1982 Fez summit resolutions which most Arab states maintain implicitly recognized Israel's right to exist (Tab 1). On September 9, 1982, the Arab world, with the exception of Libya which was not represented, reached a consensus on principles for peace in the Middle East. The Fez plan derived from an eight-point declaration issued by Saudi Arabian King Fahd on August 6, 1981.

The Arabs considered the plan significant because, for the first time, it implied recognition of Israel's right to exist by referring to the need for "peace and security for all states in the region." It did not, however, specifically mention Israel by name. Nonetheless, it was a significant step in the right direction. Secretary of State Shultz said the Arab League plan could be a "genuine breakthrough." King Hassan of Morocco said the plan was intended to achieve a "state of non-belligerency with Israel, leading to the normalization of relations," adding, in an October 23, 1982 statement, that the Arab states wanted to live in peace with Israel, but would not recognize Israel formally until it returned the occupied territories and agreed to resolve the Palestinian problem. The PLO, in its National Council meeting in Algiers in February 1983, endorsed the Fez plan as the "minimum for political moves by the Arab states." Syrian Information Minister Ahmad Iskandar Ahmad said, on October 11, 1982, that Syria would recognize Israel if it withdrew from all the occupied territories, including the Golan Heights, and recognized the right of the Palestinians to self-determination.

The Arab League summit in Amman called for an international conference On September 23, 1987. The Arabs later told us that this brought them into compliance with UNSC resolution 338.

Most recently, the final declaration of the Casablanca Arab League summit of May 23, 1989 (Tab 2) reintegrated Egypt into the organization. Also, for the first time, the Arab states accepted United Nations Security Council (UNSC) resolutions 242 and 338 (Tab 3) as a basis for negotiations. The Casablanca summit also "welcomed" the 1988 Algiers PNC resolutions which had called for a two-state solution.

The Arab League consensus has also, in addition to tempering its rhetoric toward Israel, adopted policies which indirectly have contributed to moderation and pragmatism. Most notable has been the changing of attitudes toward Egypt. In 1979, Egypt was expelled from the Arab League as a result of its peace treaty with Israel. Gradually over the past ten years, the Arab League has accepted the reality of an Egyptian-Israeli peace by reintegrating Egypt into the Arab world without Egypt's having changed its policies toward Israel and peace.

-- All Arab states except Libya now have formal diplomatic ties with Egypt, including Syria.

-- In May 1989, Egypt was reinstated into the Arab League.

-- In March 1990, the Arab League agreed to return Arab League headquarters to Cairo.

These moves have helped to moderate and condition Arab acceptance of Israel and in doing so have lent support to Egypt which has again emerged as a central component in the Israeli and U.S. peace process strategy. In accepting Egypt back into the Arab world in a position of leadership, the Arab world has accepted the reality that an Arab state can conclude a peace treaty with Israel.

II. THE ARAB STATES AND ISRAEL

Key Arab states have also altered their traditional hardline view of Israel, although in varying degrees to suit their own political and foreign policy interests. Of the four states that share contiguous borders with Israel, three have worked out varying kinds of accommodation, from the most formal, Egypt (which maintains full diplomatic relations), to Jordan (which has maintained practical arrangements), to Syria (which still refuses to accept Israel but which has scrupulously maintained a disengagement agreement with Israel since 1974).

Nonetheless, on key components and issues of the peace process and activities regarding Israel, Arab policies toward Israel vary widely.

A. RECOGNITION OF ISRAEL

Only Egypt formally recognizes Israel and has been willing to establish diplomatic recognition as part of its peace treaty. Jordan has, in its public statements, affirmed its desire to reach a negotiated settlement with Israel. In 1986, King Hassan of Morocco hosted then Prime Minister Shimon Peres in Rabat. Lebanon agreed in 1983 to

conclude a formal withdrawal agreement with Israel, but reversed that position in subsequent years.

B. ACCEPTANCE OF UNSC RESOLUTIONS 242 AND 338

In May 1989, the Arab states accepted 242 and 338 at the Casablanca summit. Individually, most Arab states now accept UNSC resolution 242 as a basis for a negotiated settlement. Both Jordan and Egypt have formally accepted 242 and 338. Syria, while not explicitly accepting 242, does accept UNSC resolution 338, article 2 of which "calls upon the parties concerned to start immediately after the cease-fire implementation of Security Council resolution 242 (1967) in all of its parts." Other Arab states contend that 242 is only relevant to front line states and have not seen a need to communicate formal acceptance directly to the Security Council or the Secretary General.

C. SUPPORT FOR ARAB-ISRAEL PEACE PROCESS

Almost all Arab states support a negotiated settlement of the Arab-Israel peace process as evidenced through their support for resolutions 242, 338, and their willingness to accept Egypt, which has a formal peace treaty with Israel, back into the Arab world. Most Arab states claim that as part of a comprehensive settlement, they would be willing to reach an accommodation with Israel. Some have told us that this would be facilitated by progress on an Israeli Palestinian dialogue. Over the years, a number of Arab states have been helpful in trying to promote Middle East peace and have been supportive of U.S. efforts. Most notable has been Egypt which has played a key role in the current U.S. effort to launch an Israeli Palestinian dialogue. Jordan, which has also figured prominently in U.S. peace efforts in the past, has also looked for a way to move into negotiations with Israel.

Other Arab states, however, while exhibiting varying degrees of pragmatism when it serves their interests, have been harsh opponents of any reconciliation with Israel on anything but their own terms. Syria, which has maintained a disengagement agreement with Israel for a decade and a half, remains a staunch opponent of U.S. peace process diplomacy and continues to support Palestinian rejectionist attacks against Israel. Iraq has been willing to accept a peace process supported by the PLO but remains a source of harsh anti-Israeli rhetoric. Libya remains implacably opposed to any form of accommodation with Israel.

Unfortunately, too much of the Arab world still acquiesces and actively participates in efforts to isolate Israel. They do not recognize Israel. They continue to participate in the Arab boycott. They support the "Zionism is Racism" resolution. Their press is characterized at times by anti-Semitic comments and caricatures and far too frequently they do not condemn terrorist attacks against Israeli civilians. We have sought to have the Arab world reverse these policies. We are disappointed that they have not done more to move in this direction.

ARAB ECONOMIC BOYCOTT

The United States government has consistently called upon Arab states to end their economic boycott of Israel. Secretary Baker, in his May 22, 1989 speech to the American-Israel Public Affairs Committee (AIPAC) said:

"Let the Arab world take concrete steps toward accommodation with Israel -- not in place of the peace process, but as a catalyst for it. And so we would say: end the economic boycott; stop the challenges to Israel's standing in international organizations; repudiate the odious line that Zionism is racism."

In response to a U.S. demarche, the Secretary-General of the Arab League has indicated in a letter to the Administration that the Middle East conflict persists because, in his view, Israel continues to occupy the Palestinian territories, the Golan Heights, and southern Lebanon. Under these circumstances, he maintains, the boycott is an act of self-defense similar to actions undertaken by numerous countries in the past. He further stated that the Arab League reaffirmed its desire to promote progress towards peace, and suggested the lifting of the boycott would be the result of achieving a comprehensive peace in the region, in conformity with international law and U.N. resolutions.

All Arab states with the exception of Egypt continue to adhere to some degree to the provisions of the Arab boycott.

INTERNATIONAL ORGANIZATIONS

Campaigns to expel Israel from international organizations no longer enjoy the international support they once did although challenges to Israel still are mounted at the United Nations General Assembly (UNGA). This Administration has vigorously fought such moves.

The first step in the Arab campaign to expel Israel from the U.N. was taken by the seventh Arab summit conference in Rabat in October 1974. The resolutions passed by the conference included a section proposing sanctions against Israel, as provided for in Chapter 7 of the U.N. Charter, and demanded its expulsion from the U.N.

The Arab campaign reached its high point at the Islamic Foreign Ministers Conference in Jeddah in mid-July 1975. By consensus and virtually without discussion, the Conference adopted a strongly worded Syrian resolution calling for:

-- expulsion of Israel from the UNGA, the specialized agencies, and all U.N. conferences;

-- revision of the 1949 UNGA resolution which admitted Israel to the United Nations; and

-- tightening the Arab economic boycott and ending all relations with Israel.

The campaign against Israeli U.N. membership faltered at the Organization of African Unity (OAU) meeting the last week of July 1975 when the heads of state failed to endorse a strong resolution, adopting instead a modified one calling for the suspension of Israel which the Egyptians had proposed as a "moderate" compromise.

The U.S. vigorously opposes efforts to exclude Israel from membership or participation in the U.N. system. Still, the Arab group (excluding Egypt) annually mounts a challenge to Israel's credentials in the General Assembly, to date without success, contending that Israel's policies and

practices toward the Palestinians in the occupied territories are inconsistent with the principles embodied in the U.N. charter. Another member, usually a Nordic state, in turn has presented a counter motion to defer the item from consideration. The Arab group, except Egypt, consistently votes against deferral and just as consistently loses.

In 1989 the Arab challenge was defeated by a record margin of 95 (U.S.) - 37 - 15 and, for the first time, the Soviet Union abstained instead of voting with the Arabs. The U.S. has repeatedly made it clear that if Israel were excluded from the General Assembly, our government would withdraw from the General Assembly and would withhold payments until Israel's right to participate was restored.

From time to time, Israel's right of membership and participation have also been subject to attack in various U.N. specialized agencies. With the support of like-minded friends, the U.S. has been able to block such attempts. In recent years, the U.S. has been able to generate substantial opposition to such politically motivated actions in the U.N. technical bodies, and to prevent substantive initiatives -- if not rhetorical censure -- against Israel. Such has been the case, for example, in the International Atomic Energy Agency (IAEA), where attempts to invoke sanctions against Israel in response to the 1981 attack against an Iraqi nuclear reactor have significantly waned since the mid-1980's.

Challenges to Israel have been somewhat pushed out of the spotlight by most recent PLO attempts to gain enhanced status for the self-declared "state of Palestine" in various international organizations. Since the Palestine National Council unilaterally proclaimed Palestinian statehood in November 1988, the PLO has sought to legitimize that claim by obtaining enhanced status for "Palestine" in international organizations. The U.S. has vigorously opposed this action on both legal and political grounds. Secretary Baker has made it clear that withholding of U.S. funds would be an inevitable response to action by any international organization which makes any change in the PLO's present status as an observer organization. This position was affirmed by Congress in legislation.

Several international organizations have had an opportunity to admit the PLO as a member, but none has done so. The World Health Organization (WHO) and the World Tourism Organization (WTO) each voted in 1989 to defer action on PLO applications for membership on behalf of the "state of Palestine." An agreement reached in the United Nations Economic and Social Council (UNESCO) similarly deferred the membership issue to the next UNESCO conference in 1991.

The International Atomic Energy Agency (IAEA), the International Civil Aviation Organization (ICAO), the Inter-Governmental Maritime Organization (IMO), the International Telecommunications Union (ITU), the United Nations Environmental Program (UNEP), and the Universal Postal Union (UPU) all accepted a nameplate change to "Palestine" without any change in the PLO's observer status.

Despite U.S. objections, the General Assembly of the Food and Agriculture Organization (FAO), passed a resolution calling for agricultural development in the occupied territories "in close cooperation with the PLO," but did not change the PLO's status within the organization.

Finally, the 1989 United Nations General Assembly decided on December 6, 1989 to defer action on the proposal to change the PLO's observer status at the United Nations.

In another attempt to legitimize its claim to statehood, the PLO attempted last year to accede to the Geneva Conventions of August 12, 1949. The Swiss Government circulated the PLO "accession" for informational purposes only, and did not treat the document as an accession.

PALESTINIANS AND ISRAEL

Secretary BAKER. Senator Specter, let me, without in any way diminishing or denigrating what you have said with respect to the reports, because most of what you read came out of our report, let me say that for I think 20 or 22 years before the United States entered into its dialog in December 1988 with the PLO, Israel had tried to find dialog partners among the Palestinians, without success; was never able to find dialog partners.

It has only been since December 1988 that there has been any real prospect of getting a dialog going between Israelis and Palestinians—Palestinians.

We do not approve in that report of everything that the PLO has done or has failed to do, and we point out serious deficiencies in their behavior over the past year, particularly their failure to better control constituent groups.

And we have made specific reference, I think, to our disappointment over the PLO's failure to disassociate itself from actions and statements by some of those groups which raise serious questions about the commitments of December 1988.

But we do take the position that, generally speaking, the PLO has complied with its December 1988 commitments. It can do better and it should do better.

Senator SPECTER. Mr. Secretary, I think your last statement is inconsistent. I know that is perhaps a tough thing to say, but when you articulate serious deficiencies in PLO activity and a failure of the PLO to disassociate itself from other activities and then you conclude that the PLO is generally conforming to their December 1988 statement, I just do not think that you can ride both of those horses.

I think if you take a close look at these reports, there is a much stronger case against PLO compliance with their declarations to abandon terrorism. As well, there is, lurking in the wings, this United States push to let the PLO in in some manner.

Secretary BAKER. That is not right. I am sorry to have to correct you, but I want to correct you, Senator, because that is simply not right.

Senator SPECTER. Well, my reading of the interstices, what goes on between the lines, is that there is a push to have the PLO in a position to influence, if not control, the peace negotiations.

Secretary BAKER. Senator, I am sorry, but that is just simply not right, and we have offered written assurances with respect to that issue that were up to a point deemed satisfactory, that are not the reason why we are not able to move forward. So I am sorry, but I just categorically reject that. It is simply not true.

We have made it very clear at every turn in these discussions that that is not something we have in mind, something we are interested in, or something we would condone.

Senator SPECTER. Well, my time is up, so I will return at the next round.

Thank you, Mr. Chairman.

Senator LEAHY. Senator Lautenberg.

Senator LAUTENBERG. Thank you, Mr. Chairman.

LITHUANIA

Mr. Secretary, I want to return for a moment to the discussion of Lithuania. Was there any understanding between the President, Mr. Kohl, Mr. Mitterand on their recommendation to the Prime Minister of Lithuania that they kind of slow down the process? Was there any recommendation?

Secretary BAKER. Slow down, no. No, Senator.

Senator LAUTENBERG. OK.

Secretary BAKER. I think that you're aware of the fact that there is virtually zero, if any, support on the part of our allies for any specific actions with respect to the question of Lithuania.

Senator LAUTENBERG. Right.

Secretary BAKER. We made a special point of canvasing them. And further, let me say also, I have already said this morning that we have seen some suggestions of compromise proposals appearing in the press, suggestions coming from the Soviet leadership and from the Lithuanian leadership. Some of those suggestions reflect ideas and approaches that we have thought—some of which, we thought some of these made sense. And those were discussed with our allies, as indeed they should be.

Senator LAUTENBERG. I just wanted to see if we could make clear on the record that, while we again may disagree on some strategy here, that there is a general interest, an international interest, if you will, of trying to establish Lithuanian freedom and independence, but in the safest, most peaceful manner, without also at the same time destroying an initiative that is in place that I think is going to be good for us and the entire world.

And I wanted to just be certain that we are not alone in the view that, while we have to move along, that our friends in Bonn and Paris were not—there is no conspiracy or no relationship to the public statements they just made.

Secretary BAKER. That is correct, Senator.

The real question—those two countries agree with us with respect to the illegal incorporation of the Baltics into the Soviet Union. Most of our allies do. Not all of them do, and in fact there are a number of countries, members of the United Nations, that see this of course as an internal matter of the Soviet Union, a position we disagree with.

The real issue here, Senator Lautenberg, and I think you have pointed it out and I thank you for doing that, is how do you get to genuine independence for the Baltics? How do you get genuine independence? What is the best approach to get there? That is the question that we are weighing, and we think our approach offers the better prospect.

Senator LAUTENBERG. Well, I do not fully agree. But having been to the Soviet Union the last 2 months and seeing the relatively fragile condition of everything, a place where I think the government in its reform interests is ahead of the population, where this whole house of cards could come tumbling down in a minute in my view, because there is a great deal of dissatisfaction among the ordinary people in the Soviet Union.

They see less bread on the shelves. They see less goods. They see less, a lesser quality of life in front of them, and they are not so convinced that this is a good idea.

And I think that we have an incredible stake here. And again to those friends from Lithuania, and I have met with many of them, a lot of Lithuanian Americans live in New Jersey and I have said to them, I said I think I agree that that annexation was illegal, that we ought to correct it, that we ought to do it as quickly as is possible.

We also ought to do it as peacefully as possible, because, I have said to them, if I were you I would not test this weakened Soviet military machine. You do not want the Afghanization of Lithuania. You do not want to have a flattened land with lots of dead people on your hands and not having achieved your goal.

LATVIA

But I would urge you to press on, as I earlier said. The Latvian Parliament is going to meet May 3 and many believe they are going to take steps toward declaring their independence, although they are not expected to declare it outright.

What is the administration's policy going to be toward Latvian aspirations for independence? Is it going to be the same as we are seeing with Secretary? Can they expect stronger support from our Government?

Secretary BAKER. Is that a question?

Senator LAUTENBERG. Yes; the question can they expect stronger support from our Government and are we going to try to block—to break a blockade?

Secretary BAKER. Well, those are all very hypothetical questions. Let me simply say that we lump all three of the Baltic States together in our view that their incorporation into the Soviet Union was illegal and we support the desires for self-determination of the peoples of Lithuania, Latvia, and Estonia.

The issue is to some extent complicated a little bit in the case of Lithuania because the Lithuania that we recognized as an independent country and the Lithuania whose incorporation into the Soviet Union we did not recognize is not the same territory as the Lithuania of today, because there are some parts of Lithuania today that were added from the Soviet Union.

So you have those issues that have to be thought through as well. But in terms of the juridical position of the three Baltic States vis-a-vis the United States, it is the same.

SOVIET EMIGRATION AND MFN STATUS

Senator LAUTENBERG. Mr. Secretary, on the question of emigration, we heard discussion before from our friend Senator DeConcini

on the continued emigration of those who choose to leave, and the question arises, do we lose our leverage to press on once having granted MFN?

There is a piece of legislation, which I think you touched on before, in front of the supreme Soviet that codifies very precisely what the reasons are to withhold emigration permission. It deals with the state secrecy laws, it deals with the financial, the poor relative impediment. There are several things.

I would hope that before we go ahead and put most favored nation [MFN] into place here that we can iron out that and get it into law. It has been promised, promised to me and others who met with the Soviet Ambassador here and who met with officials in the Soviet Union, that this was just a perfunctory matter and that it would be taken care of. That was 2 months ago.

So I hope that we will continue to press them on emigration and let those refuseniks who have been waiting get out of the country in accordance with what would be the proposed law once they enact it. You are familiar, I think, with that.

Secretary BAKER. Well, we will continue to press, as we have in the past, for their right to emigrate. And we will insist, as we have in the past, that the emigration legislation be passed by the supreme Soviet.

It is my understanding, Senator Lautenberg, that they were going to be considering that around May 22. I am not sure that that date is right.

Senator LAUTENBERG. I had been told earlier at an earlier stage, and they seem to keep deferring that date. But again, I would like to hold that hostage with some other things, including get on with a more serious talk with Lithuania, before we go ahead and grant them the full MFN status.

Earlier this year President Havek of Czechoslovakia told the Congress that we can help the Czechs most by helping the Soviet Union on its irreversible, but immensely complicated, road to democracy. Do you see any steps that we ought to be taking to strengthen the economic reform process in the Soviet Union that would fulfill this objective that he has outlined for us?

Secretary BAKER. Well, you see, that is where this question of Lithuania becomes difficult, you see, because clearly if all of our other conditions are satisfied and they move forward and we end up granting MFN, that will assist the process of democratization and the process of moving to a free market economy in the Soviet Union.

But there are considerations, as I have indicated, that have to be balanced. We are engaged in technical economic cooperation efforts with the Soviet Union. The Chairman of the Federal Reserve has been to the Soviet Union, met with their central bankers. The President's Chairman of the Council of Economic Advisers has been.

We have had substantial discussions with them about some of the problems they face in trying to move to a market economy. If we want the Soviet Union to continue to move toward reform, democratization, freedom, free market economic policies, we should continue to assist them with technical economic cooperation, as we are doing.

If we want them to continue to move in that direction, we should move on the other economic measures that the President mentioned in Malta, and of course MFN is one of those. That is why the continued negotiation of a commercial agreement is important if you want to be in the position, depending upon developments, to move in the direction of granting MFN, because the commercial agreement is a precondition.

The negotiation of a commercial agreement is not tantamount or equivalent to the granting of MFN, and it is actually not tantamount or equivalent to the execution of that agreement which has been negotiated.

Senator LAUTENBERG. Thank you very much.

Thanks, Mr. Chairman.

Senator LEAHY. Senator D'Amato.

MFN STATUS FOR U.S.S.R.

Senator D'AMATO. Mr. Secretary, I am glad that you concluded on that note, that the negotiation of the commercial agreement is not tantamount to the submission of most-favored-nation status to the Senate for approval. I think that is important, that the Soviets know that, and I think that is where some of us have a very real problem, in terms of the perception, that the Soviets understand exactly what you said and the manner in which you put it, because I would hate to think that they are getting mixed signals, that they get the signals from Paris and from Bonn on one hand that encourages negotiation, and we all do, but it almost seems implicit to say, you can continue to do what you are doing.

That is what troubles this Senator and I think many others, meaning that the Soviets can continue their policy in dealing with Lithuania and that is acceptable.

Secretary BAKER. Well, Senator, let me go back to the earlier part of this hearing, where I said the situation is not static, and it is not. Some of you would like to see the President move now, yesterday, day before yesterday. In his judgment that is not now the appropriate response.

But these are difficult issues as I have outlined here in answer to Senator Lautenberg, in answer to you and to Senator DeConcini. And I think that the President should be given the latitude to conduct the foreign policy of the United States with respect to this very, very complex and sensitive relationship in the manner that he sees, that he deems best, taking into consideration all of these factors.

It is a matter that, as I have indicated, it is complex and a lot has to be taken into consideration.

Senator D'AMATO. Well, I think again, Mr. Secretary, that you—maybe I am placing——

Secretary BAKER. Can I just add one thing? Let me say this. Obviously, MFN will require congressional approval.

Senator D'AMATO. That is correct.

Secretary BAKER. OK.

Senator D'AMATO. And I would hate—let me at this point say to you, what I would like to avoid, Mr. Secretary, would be the President being placed in a situation where he would actually come forward and submit this if the current status of what is taking place in Lithuania were to be the case.

I think that would be a terrible situation to have the President placed in, to have the Senate placed in. And I think it is important that the Soviets know that if the continued economic aggression or blockade which they are imposing continues that there will be no chance of that taking place.

Would you care to respond to that?

Secretary BAKER. I do not agree with your strategic or tactical approach, Senator. I mean, what you want is for the President to make a determination today, and what the President would like to do is reserve the flexibility to make a determination dependent upon the circumstances that might or might not develop with respect to a situation that is not static, particularly in light of the compromise proposals that have been bandied back and forth.

And taking action might have an undesirable effect. It might have a desirable effect. But the President, it seems to me, is in the best position to make that determination, and that is really what the difference of opinion here is about.

Senator D'AMATO. Well, I do not know about that. I am not questioning the President's ability to make a determination. I agree with you on that.

But in terms of what the dialog is about and the questions, Mr. Secretary, let me make an observation, and I do not think that it will be fruitful for us to continue to pursue this, although I appreciate your candor and your patience in addressing this issue. It is complex. It is one that is difficult, and we do understand the ramifications that you of necessity must be looking at.

But you know, to date the U.S. policy has been an effective one, and it has been a tough policy and it has been a policy that has yielded results, as you have indicated, and that we can be proud of.

Who would have thought, as you indicated in your initial opening, that we would have a free election in Nicaragua, of all places, the hot spot within our own backyard? Literally, within a period of months, we have a cessation of the hostilities, an election, a democratic process take place, and we are hoping that this continues.

Or that we would have seen the incredible results that we have seen take place in Eastern Europe?

Having said that, it was a policy which was a strong one, which offered hope and opportunity to those nations that would live within the common house, that would live without using force and suppressing people, that I think has offered the Soviets a hope for the economic aid and for the technology which they so desperately seek.

I think that there is a question, do we waiver in the 11th hour, yes, with Lithuania? And if we do it with Lithuania, do we do it in the future, do we turn our head aside to others who seek freedom? As you said, this is not just Lithuania, it is all of the Baltics.

I just think it is important that the Soviets know our position. The manner in which our policy is transmitted, whether you do it behind closed doors, as I have suggested that it would be more appropriate for the administration and for the President to do in dealing with his counterparts or yourself, or not, that is fine with me.

But I think they have to know, the Soviets have to know, that what they are doing at this time is an act of aggression against the Lithuanian people that will not permit most favored nation status to go forward, because I certainly do not believe that the Senate will approve it.

And I am wondering if they are getting that message. That is my concern. I am not even going to ask you to respond. If you care to, why, fine. But you have been more than patient. But that is the concern that this Senator has.

Secretary BAKER. If I might say, Senator, I hope and believe it is a misplaced concern. We have seen the progress we have seen in Eastern Europe and in other parts of the world because the Soviet Union, at the very least, has acquiesced in what has happened, if they have not affirmatively approved it and encouraged it.

And there is some evidence that in some countries in Eastern Europe they even encouraged the move to democratization and to freedom.

I am leaving tomorrow morning at 7 o'clock in the morning for the first ministerial meeting of the two plus four mechanism on German unification. The Soviets have a major role to play in that and they have a major say in what happens and how we handle the external aspects of German unification.

They moved with respect to Eastern Europe. They moved with respect to regional conflicts. They moved with respect to a conventional forces agreement. They moved with respect to strategic arms agreement, at a time when we were telling them, if you move in this direction the relationship can become one other than competition; it can move in fact from competition to cooperation.

And that is the kind of progress we got and that is the kind of accomplishments we were able to make. Now, if we change that policy approach, I cannot agree with you that the same progress can be made. And I have difficulty, frankly, agreeing that that is the best way to get, as I mentioned a minute ago, genuine independence for the Baltics. It is genuine independence that we seek for the Baltic States, not a mere declaration of independence without any de facto or de jure independence.

And so I would just submit to you that I think our policy approach is the right one. The President has said this is the policy approach for now. We are not dealing with a situation that is static.

Senator D'AMATO. This will continue at another time, and I hope, Mr. Secretary, that the Soviets do get your message, even if delivered quietly behind the scenes.

But, again, I am just fearful that they have met so much success in the public arena concerning what they are doing that they may believe that they can continue—and I am talking about what they are doing to Lithuania—that they can continue that policy.

That is the concern that this Senator has, because I do not believe that the President can or will permit the crushing of Lithuania to take place, and I hope the Soviets are not getting mixed signals. That is my concern.

Thank you, Mr. Chairman.

Senator LEAHY. Secretary Baker, we know you are on a tight time schedule. We are going to try to keep you on it.

As you know, we have some areas of policy disagreement. My earlier questions on El Salvador are probably an indication of that. My followup written questions will be, too.

But on the question of Lithuania and the handling of a very difficult situation, you could get 535 slightly different variations or large variations from the Congress on the way to handle it.

Speaking as one Senator, I think that you are facing a very difficult situation in Lithuania and the other Baltic States. I for one support the way you and President Bush are handling that, and I know it is a very difficult thing. I would hope that the Soviet Union, our allies and others realize that the majority of us are very supportive of the President.

To handle a very difficult matter like this, the President will have to have our support, and I think that the way he has handled it deserves our support.

Secretary BAKER. Thank you, Mr. Chairman.

Senator LEAHY. Having said that, you will probably have to go back and question just exactly what it is you have done here.

INTERNATIONAL FAMILY PLANNING

Mr. Secretary, last year the President vetoed the foreign operations bill containing a $15 million contribution to the U.N. Population Fund—the main reason for the veto. That bill also said specifically that no United States funds to the UNPF could be used in China.

Now, I have written to the President—I am joined in that letter by Senators Mikulski, Hatfield, and Kassebaum—asking if there is some way that we could resolve this issue without repeating what happened last year. I know a number of House Republicans have written to you on this subject.

I do not know if you have responded to the House Republicans who have written to you, but I have not even had the courtesy of a form letter reply to the letter to the White House from Senators Mikulski, Hatfield, Kassebaum, and I.

We are trying to work out a mutually acceptable compromise. We are very concerned about the U.N. Population Fund. We are very concerned about what is happening in the world regarding population growth.

I think that it is possible to find a compromise on funding for this very important organization. So my question to you, Mr. Secretary, is where does the administration stand on this? Do you want to work out a way that we can get money to the U.N. Population Fund, or will Congress just continue to pass it, the President veto it, and bounce back and forth?

Do we have a compromise or a game of shuttlecock?

Secretary BAKER. Senator Leahy, it is my understanding that—and you are quite right, the letters are at the White House. It is my understanding that the White House is going to suggest a meeting on the issue of the interested parties, to see if there is any basis for discussion or working something out.

And I do not mean to suggest by that that there is, because it is a matter, frankly, that I am not looking over right now or spending a lot of time on. But I understand that the White House is going to call a meeting of the interested parties.

Senator LEAHY. But it is going to be in next year's bill and we really ought to work it out. It is something that could be, I think, with some effort, worked out ahead of time. It would be a shame if, in a $15 billion foreign aid bill, we have this little one one-hundredth of 1 percent or whatever be the reason for a veto.

And I have some questions on the European Bank for Reconstruction and Development, but because of your time and with respect to my colleagues I will submit that one for the record and yield to Senator Kasten.

Senator KASTEN. Mr. Chairman, thank you.

In the interest of time I will also submit a series of questions on refugees, refugee policy, funding, et cetera, to you. I think we made some progress in the last year, but there is more to do.

But I have got a series of questions that I hope we can work through. I will submit those in writing.

PLO RENUNCIATION OF TERRORISM

Senator KASTEN. I would like to, if I may, take off from where Senator Specter was with regard to the report on the PLO's compliance with its renunciation of terrorism. The next report is going to be, I understand, out in July.

I would like to, if I could, explore with you some of the criteria used in the previous report and ask whether the same criteria will be used in the upcoming report. Specifically, in evaluating attacks against Israel, the State Department concluded and Senator Specter in his question mentioned, that nine terrorist events involved so-called constituent groups of the PLO.

My question to you, Mr. Secretary, is which Palestinian groups do you consider to be part of the loosely structured organization known as the PLO? It is my understanding that when Arafat undertook the commitments in December 1988 he was, in the words of our Government, speaking for the PLO.

Which Palestinian groups do you consider to be under this loosely structured umbrella?

Secretary BAKER. Senator Kasten, I will have to get you the answer and submit it for the record, which I will be glad to do.

[The information follows:]

PLO

In December 1988, Yasser Arafat, speaking on behalf of the PLO, accepted long-standing American conditions for beginning a dialog. We consider groups belong to the PLO as those who are represented on the PLO Executive Committee, which also includes independent members. The groups represented include: Fatah; Popular Front for the Liberation of Palestine [PFLP]; Democratic Front for the Liberation of

Palestine [DFLP]; Palestine Liberation Front [PLF] Abu Abbas faction; Palestine Communist Party [PCP]; and Arab Liberation Front [ALF].

Groups that are represented on the Executive Committee—and therefore participate in making major PLO decisions—are considered by the PLO to be full members in good standing. Representatives from those groups are selected on the basis of the groups' relative strengths so that Fatah has three, each of the other factions has one, and the remaining seven are independents.

Some of these groups are not unified and are headquartered in Syria, whose government opposes Arafat's policies. While the individuals who represent these groups on the Executive Committee are generally responsive to Arafat, the representatives who are based in Damascus or elsewhere and who directly control the fighters are often less responsive.

We use all evidence available to us from all sources in reaching the Administration's position on whether the PLO is meeting its commitments.

The standards we use in evaluating whether the PLO has adhered to its commitments are appropriate and consistently applied.

DEFINING THE PLO

Senator KASTEN. Let me just follow up by saying that, depending on how we define that umbrella, different conclusions can be reached. A very narrow definition of the PLO would be one way of helping Arafat in make it through the next report. If he understands that we will not count activities by the Palestinian National Liberation Movement or that we will not count activities by the Popular Front for the Liberation of Palestine or we will not count activities by the Democratic Front for the Liberation of Palestine, he can simply transfer the statements and the activities to, in the State Department's words, part of the loosely structured organization.

If that is what is going on, with the State Department's understanding by making it a narrow definition, I do not believe that the spirit of the statements that were made by Arafat in December 1988 are being upheld.

And under those circumstances it would seem that we need to redefine what we mean and how we interpret the December 1988 comments.

Thank you, Mr. Chairman.

Senator LEAHY. Senator Specter. I am sorry, I lost track. Senator Specter.

NEGOTIATING WITH THE PLO

Senator SPECTER. Mr. Secretary, after reflecting on our discussion, I accept your statement that it is not the policy of the United States that the PLO should be involved directly or indirectly in the negotiations between Israel and the Palestinians.

When you have articulated that statement, that is that, and I think it is very useful that you have made that kind of a flat statement. I had told you what my thought was about at least the suggestion, the inference, that the State Department had backed PLO participation, if not in the center, on the periphery.

I do believe that a great many people have thought that, as I have talked to many of my colleagues here and people in Israel, Palestinians, and Israelis. I think it is very useful to have the flat statement of United States policy that it is not United States intention to have the PLO involved directly or indirectly in the negotiations.

Secretary BAKER. Well, Senator Specter, let us just make sure there is no misunderstanding. I think that your question to me was that it was our intention to somehow involve them. That is not the case and I have made that abundantly clear in our discussions.

I also told you that I thought that for 20 or 22 years Israel had been seeking a dialog partner, Palestinian partner, and had been unable to find one until the dialog of December 1988 began.

It is the view, it is our view certainly, that—well, let me simply say this. I do not know what you mean by indirectly. It is our view that a dialog will not take place between Palestinians and Israelis unless it is acquiesced in, permitted to take place, by the PLO, not approved, not participated in in any way.

And that, I think that view, Senator Specter, is shared by most, if not all, of the leaders of the Israeli Government, and that view has been so expressed to me.

So I just want to make certain that there is no misunderstanding between you and me. But we will not be, as I have said before—we are not involved in a process to bring the Israeli Government into dialog with the PLO. That is simply not a part of this.

Senator SPECTER. Well, Mr. Secretary, I used the phrase "directly or indirectly" because it is a very commonly used phrase, among lawyers and is also used more broadly. But when you add the phrase "acquiesced in" then I think we are right back to having the PLO involved in some way, and then it is a matter of definition as to how far they are to be involved.

Secretary BAKER. No; I do not think that is the case, Senator. I would disagree with you.

It is no secret to the Government of Israel or to you or to anybody else that the Government of Egypt talks with Palestinians and have in effect represented some Palestinians in connection with our discussions. That is not a secret. That is not something that is unknown to the leaders of the Government of Israel with whom we and the Egyptians have been working, and it is acknowledged and understood.

So I just do not want there to be any misunderstanding between you and me, just like I did not want there to be any misunderstanding, and there has not been, between me and Foreign Minister Arens or Prime Minister Shamir on that issue.

Senator SPECTER. Well, Mr. Secretary, this is really a very important point and I do not think it advances the issue any to deal with whom the Egyptians talk to. They can talk to anybody they choose. That is their prerogative.

Secretary BAKER. That is my point.

Senator SPECTER. They may do that. However, if you come down to the specifics, does the PLO choose the delegates for the negotiations of the Palestinians?

Secretary BAKER. No.

Senator SPECTER. Does the PLO advance the issues?

Secretary BAKER. No.

Senator SPECTER. Does the PLO have to approve the terms of the settlement?

Secretary BAKER. What do you mean, the terms of the settlement? There has been no discussion on that.

Senator SPECTER. Well, the time is up again. Perhaps there is sufficient progress if they do not pick the delegates or advance the position. And as to the terms of the settlement, we will have to await the next round of questions if, as and when.

Senator LEAHY. Senator Lautenberg.

AID TO ISRAEL

Senator LAUTENBERG. Mr. Secretary, a moment more please on the question that was opened up earlier when you were asked about whether or not the funds for Israel have become an entitlement program. You said certainly not, and I agree with you, certainly not.

But I want to pick up on something that was said, and that is that you are going to press on to find an initiative that will get people talking. Is our aid, our support for Israel, conditioned upon their acquiescence in any agreements that we think they ought to get started on or moving upon?

Secretary BAKER. No; we have not, as far as I know we have never, conditioned our assistance, Senator Lautenberg, on a willingness on the part of Israel to move forward with the peace process. We assume that nobody has a greater interest in peace than Israel.

Senator LAUTENBERG. Certainly I think that is fair to say. But it has been interpreted, of course, in many circles that the pressure, including some of our colleagues' statements about reductions in aid levels for Israel, depends upon certain conditions being made by them, and I think it is very clear that those of us who understand the situation there clearly recognize that they are literally always on a lifeline and our help and our expressed support is critical, not only from the financial side but from the comprehension of those who reside in the area that the United States is not walking away, that the United States, though in disagreement here and there, is still as committed to the strength of Israel as it has always been.

The question that was discussed earlier about Iraq. I remember about 10 years ago when Israel was criticized in this city and other places around the world when she destroyed the nuclear reactor in Iraq. And I think in retrospect history says that, thank goodness that took place, because otherwise we might be looking at a different condition than we are now, with all of the threats that Iraq poses with chemical weapons, with launchers, with long guns, et cetera.

I would hope that there is a more forceful response to Iraq's threats than was iterated here in terms of disassociating them from the contact and level of review that has been taking place. It ought to be in my view just totally outside the realm of civilized approaches.

Secretary BAKER. I detect a difference between you and Senator Specter on what the appropriate policy approach to Iraq ought to be.

Senator LAUTENBERG. Well, that could be. I am not sure that Senator Specter and I agree all the time. Some things we agree on,

some things we disagree on. A couple things that he has offered to you I may disagree on, Mr. Secretary.

But I just wanted to make sure that the record reflects that the aid to Israel is given because we think it is in the interests of our country and the free world.

ELIMINATING EARMARKS

And I will close, Mr. Chairman, by saying I was not surprised by the Secretary's suggestion that he would shave all earmarkings. I think the word, the terminology we were using, was "shaving." I would go along with that, selectively. Thank you.

Senator LEAHY. You go along with selectively shaving all?

Secretary BAKER. Selectively shaving all, Senator Lautenberg?

Senator LAUTENBERG. Selectively shaving some.

Senator LEAHY. You would go along with the Secretary's suggestion of shaving all, as long as it is done selectively. That is a fascinating way of doing it.

MILITARY AID TO EL SALVADOR

Mr. Secretary, this has been a good hearing. I wish we had more time. I know we do not. I would suggest just one thing. When you see my followup questions on El Salvador, remember, according to the Defense Department, the United States Special Forces trained the very unit that committed the Jesuit murders just 3 days before the murders. They had been training that unit for 10 years.

Now, we can pass a lot of resolutions up here on El Salvador. None of them ever get into law. We do it. We give great speeches and say we are going to cut off aid and we are going to do this and we are going to do that, and everybody feels wonderful. They never go into law.

You and I are equally offended by such brutal murders. Nobody of conscience could be otherwise. But at some point we have got to stop passing just resolutions, meaningless, toothless resolutions or pointing with alarm, and we look at the questions.

Keep in mind this. At some point we are going to have to be honest enough to say the only thing that is going to stop this is to cut off the military aid. I do not mean to get a debate going on that. We are going to be debating it later on.

But at some point we are going to have to acknowledge that nothing we have said has brought a halt.

Secretary BAKER. Senator, we will be talking further about this today if you come to the meeting that we are scheduling this evening.

Senator LEAHY. I think that is in the House.

Secretary BAKER. No; I think we are coming over here, too.

Senator LEAHY. OK. Well, I was at your earlier one, as you know.

Secretary BAKER. Yes; and I hope I see you at this one.

But let me say, I do disagree with you when you say the only way we are going to stop this is to cut off the military aid. The best way to stop this is to end the war in El Salvador, and we have a real opportunity to do that if we do not lose our resolve here in the 10th year, after 10 years of maintaining it.

So what I want to talk to you about is how we can accommodate what I know are some significant pressures on the part of some to diminish or eliminate the military assistance with the potential that we have, now that good faith negotiations have begun, to actually—and with the changes in the East-West dimension. We have got a real opportunity to end this war.

We have also got a real opportunity, I think, to handle our assistance in a way that will move the Government of El Salvador to do what is right with respect to this issue of human rights. And surely there is a basis on which we can agree with respect to our approach to this.

It cannot be simply all black and all white. It just is not. And with some good faith on both sides here, I think we can accomplish the same kind of result we did in Nicaragua.

Senator LEAHY. Unfortunately for the people who are victims of the death squads, it is all dead. But I will, as I told you before, try to keep an open mind. I will come in and approach the negotiations in a good faith effort to try to find a resolution, because these killings——

Secretary BAKER. Senator, the people who are victims of the death squad are all dead, that is absolutely right. But so are the civilians who have been killed by the FMLN, who have been trying for these 10 years to reverse the decisions of the ballot box with bullets and bayonets.

So this is not all just a one-way deal. What we have got to do is deal with the excesses of both sides.

Senator LEAHY. And no one has deplored the excesses by both sides more than I have. I have stated this several times on the Senate floor. However, we send foreign aid to only one side.

We will not settle this issue here today. I accept your offer, certainly, of trying to find a way to do it, and I will approach it in good faith, as I know you will.

Senator SPECTER. Would the Chairman yield for 45 seconds?

Senator LEAHY. Sure.

Senator SPECTER. Mr. Secretary, I had intended to talk about El Salvador because I visited with Judge Zamora, who is the trial judge in the case of the six Jesuit priests, and Judge Gutierrez, the President Judge of the Supreme Court there. And while there may be problems with what they are doing, they are our only recourse. They are the only game in town.

I believe that with sufficient pressure and conditioning some of the aid, we can bring justice to the case involving the six Jesuit priests as we did with the four nuns back in 1984. If we do not approach it that way, there is no hope at all.

And I would just ask that you take a look at my floor statement of April 19, a few days ago, which reports my findings, because I think there are ways we can pursue that matter. I have some disagreement with the House panel report, not with their frustration, but the line of approach to get the job done.

Thank you.

ADDITIONAL COMMITTEE QUESTIONS

Senator LEAHY. Thank you, Mr. Secretary, I appreciate your being here. We will hold the record open for written questions.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

FOREIGN AID REFORM

SENATOR LEAHY: Mr. Secretary, for the past forty years our foreign aid has been linked to the Cold War. We have defined our national security in terms of our superior military power. That has worked in the past, but it will not work in the future.

What disturbs me about this year's budget request for foreign aid is that it is a carbon copy of the past.

The Cold War is over and peace is breaking out everywhere, but you are again requesting <u>increases</u> in military assistance.

How do you justify these high levels of foreign military assistance to the American people when we can no longer say it is necessary to "contain Communism"?

SECRETARY BAKER: I share your satisfaction with the encouraging developments since last fall in Eastern Europe, and the emerging democracies in Panama and Nicaragua. I can not agree that the sole purposes of U.S. security assistance for the past forty years was to contain communism.

Many of our friends and allies still confront serious threats from regional tensions, terrorism and narcotics trafficking. Our friends and allies in the Middle East and elsewhere still have legitimate defense needs, and need our help to fulfill them. We must continue to help our friends deal with these and other challenges by providing security assistance.

The U.S. provides security assistance to create a peaceful, stable international order. This was necessary, and still is necessary, to promote democracy and free market economies abroad. These objectives are as valid today as they were at the height of the Cold War. Democracy has triumphed in many areas, but the process is not complete and democractic gains in many countries still must be consolidated.

In the case of Europe, we must remember that the democractic revolution sweeping Eastern Europe is largely the result of the United States' commitment over the past forty years to working with our NATO allies to maintain a credible deterent to aggression and to foster peaceful democractic evolution. NATO will retain a key role in securing the progress of the past year. It is especially important to stand by our friends while questions regarding the future security architecture of Europe remain undecided. Now is not the time to abandon a winning strategy.

The U.S. is a superpower with global interests, commitments and responsibilities. We will be taking a very careful look at how the FY92 budget can be structured to meet our international responsibilities in today's rapidly changing world.

DEMOCRACY

SENATOR LEAHY: Your speech at Dallas on March 30 singled out strengthening democracy as the cornerstone of our foreign policy.

How do you intend to give meaning to what you said in your speech in Dallas? What changes do you intend to suggest in our foreign aid programs so that we actually do give more support to truly democratic institutions?

SECRETARY BAKER: The Administration is taking a number of steps to ensure that our assistance programs and other diplomatic efforts worldwide assist in the consolidation of democracy. Our efforts to resolve persistent regional conflicts in the Middle East and South Asia are designed to lay the basis for peace which is an essential precondition for democracy. Our development assistance efforts worldwide support economic growth which is vitally needed to provide legitimacy for democratic political structures. We are taking a number of specific steps to promote the deepening of democratic structures:

- Just last week, the President announced our support for the Citizens Democracy Corps, a new mechanism to coordinate the extension of voluntary assistance efforts to the emerging democracies of Central and Eastern Europe.
- Through CSCE, we are actively involved in the process of monitoring elections in Eastern Europe.
- Our $300 million bilateral assistance initiative for Eastern Europe for FY 1991 is specifically conditioned on countries making progress toward representative democratic governments. We have made it clear that backsliding in this regard will not be acceptable.
- We have worked hard with our allies to ensure that the newly created European Bank for Reconstruction and Development also incorporates expansion of democracy as one of its principal objectives.
- And the G-24 assistance coordination mechanism for Eastern Europe is directly linked to individual countries' progress in consolidating democracy.

In Central America, we are currently seeking supplemental funding to provide the economic underpinnings for the restoration of democracy in Panama and Nicaragua. We are also beginning to explore the possibility of creating an international mechanism for supporting democracy in Central America and the Caribbean modeled after the successful Eastern European effort.

In Africa, a continent with a long tradition of one party rule, we are seeking to strengthen democratic practice. Our support for the U.N.

peacekeeping effort in Namibia -- culminating in the supervision of multiparty elections -- demonstrates our commitment to strengthening democracy in this continent. We are using diplomacy to hasten the abolition of apartheid in South Africa and the establishment of a non-racial, multi-party democracy. Our assistance programs there are geared to helping black South Africans in the crucial sectors of human rights, education, labor organization, community outreach, and leadership development.

HUMAN RIGHTS

SENATOR LEAHY: Last year this subcommittee included in our report several suggestions of how the Administration can improve the way it deals with governments that engage in serious human rights abuses.

The subcommittee was concerned that the State Department does not have country-specific strategies to improve human rights conditions. The State Department says it does have strategies.

Besides El Salvador which we all know about, we continue to receive reports of serious abuses by security forces in Kenya, Turkey, Guatemala, Peru, Morocco, Egypt, to name but a few of the larger recipients. If you include the smaller aid beneficiaries with human rights problems, the list is very long. The human rights situation in these countries has either not improved, or got worse, in recent years.

The law says we should not be giving foreign aid to countries that are not making a serious effort to improve human rights. But the reality is that we do.

What are your strategies for countries like these, besides telling them to do better? How does our aid play a role? Would you support a much more direct and explicit linkage between our aid and human rights performance?

SECRETARY BAKER: Senator Leahy, promotion of Human Rights is one of the highest priorities of this Administration. U.S. officials both overseas and in Washington are constantly seeking the most meaningful and effective methods of promoting our democratic values. We must, of course, determine in each country which tactics will be effective and which will not. Often the best course is through quiet diplomacy coupled with programs that strengthen democratic institutions, such as an independent judiciary. At the same time we also recognize that we have other national security interests that need to be protected while we pursue our human rights objectives.

No one can deny that there is room for improvement in the human rights record of many countries which receive U.S. assistance, including the countries you have mentioned. However, we need to look at the particular situation in each country. Peru, for example, is facing the threat of a violent leftist

insurgency while struggling to combat narcotics trafficking. At the same time, it is conducting a democratic electoral campaign. In some of the countries you have mentioned the situation has improved over the past few years, in others the situation is deteriorating. However, in each and every country you have cited, human rights is an issue we have taken up repeatedly with senior government officials. Our concerns are taken seriously and I believe that many of the positive developments which have taken place have been directly encouraged by the United States.

I believe that current legislation on aid and human rights is appropriate. It clearly sets out the linkage between aid and human rights while permitting the flexibility that is required to promote our human rights goals most effectively.

DRUG TRAFFICKING - MILITARY AID

SENATOR LEAHY: I am very concerned about the Administration's plans to drastically increase military aid to Peru and Colombia to fight drugs. Drugs are a menace. We all agree with that. But so is the human rights record of the Peruvian military. Anyone who reads the reports of Amnesty International and other human rights organizations knows that.

Last year our military aid to Peru was $0. This year it will be $36 million. Next year you want $39 million.

According to Amnesty International, the Peruvian military has "adopted the same methods they attribute to the guerrillas -- torture, mutilation, disappearance, murder and rape have become their hallmark."

Mr. Secretary, why can't the United States absolutely insist on protection of at least minimal standards of decent behavior from those who take our money, such as Peru? Don't you agree we have got to stop aid when our most basic values are scorned by those we help?

MR. BAKER: The U.S. is also deeply concerned about possible human rights violations in Peru. The U.S. has not provided military assistance for counternarcotics purposes to Peru in the past and there is concern that this assistance be conditioned regarding the role of the armed forces in Peru, including protection for basic human rights. We are working toward an understanding with the Government of Peru to ensure all such assistance is dependent upon Peruvian adherence to performance standards in order for the aid to continue. It has been reported that Peru's guerrillas and narcotics traffickers have been the cause of many human rights violations, but this does not excuse any similar violations by the military. The plan for the Andean countries includes phasing in military, law enforcement and economic assistance. The program will be monitored as closely

as possible to pursue international obligations of the U.S. to ensure that the objectives of promoting and protecting human rights are met.

PAKISTAN

SENATOR LEAHY: For years we gave large amounts of military aid to Pakistan, despite that it was ruled by a general who never scheduled elections, and despite the bad record of the Pakistani military for corruption and human rights abuses. It has been two years since the Soviets left Afghanistan and today Pakistan has a democratically elected president. Isn't it time to shift the balance of our aid from military to economic and development aid there? If this subcommittee moves in that direction this year, can we count on your support?

SECRETARY BAKER: The percentage of military aid in our total aid package has been declining steadily, from 50% in 1984 to 39% this year. We believe our conventional military assistance serves important regional security and nuclear non-proliferation goals. In addition, a reduction in U.S. military assistance could weaken the democratically elected government by calling into question its ability to assure Pakistan's security.

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

SENATOR LEAHY: As you know, there is considerable concern in Congress about US participation in the EBRD, especially because of Soviet membership. Now, with Soviet pressure on Lithuania, concern is even greater. Why should the US join the EBRD and directly or indirectly subsidize the Soviet economy?

SECRETARY BAKER: Due in large measure to United States participation, the EBRD negotiations produced a unique charter that supports the political and economic transformation in Central and Eastern Europe. The EBRD charter ensures that only countries making progress towards the goals of market-based economies, pluralism, multi-party democracy and the rule of law will receive EBRD assistance. Equally important, the bank will concentrate at least 60 percent of its resources on private sector projects. These features are unique among multilateral development banks.

The USSR's potential role in the new bank was a central issue for us throughout the negotiations. We sought and obtained a number of limits on Soviet borrowing from the EBRD, both because the Soviet Union has made less progress on political and economic reform than the Central and East European countries and because of the USSR's status as a military superpower.

The agreement limits Soviet borrowing to the level of the Soviets' paid-in capital subscription for three years. The USSR will subscribe to 6% of EBRD capital. The Soviet subscription for the five-year pay-in period will be roughly $702 million, of which 30% (or $210 million) will be paid-in. The upper limit on Soviet borrowing for the first three years will therefore be $210 million. Soviet borrowing will be permitted only to finance the private sector, enterprises in transition to private ownership and control, and state-owned enterprises operating competitively and moving to a market orientation. Loans to the state sector cannot exceed 40% of Soviet borrowing.

At the end of a three year period, the Soviet Union could expand its borrowing access only with the approval of countries holding 85% of the bank's voting power. This effectively allows the US (with only one other large donor) to block enlarged borrowing. Furthermore, lending could be suspended if there is a serious reversal of Soviet political and economic reform efforts.

Because this formula meets our goal of adequate restrictions on Soviet borrowing, we support U.S. membership in the bank.

As the EBRD's largest single contributor (10 percent of the bank's capital), the United States will be able to continue to influence bank policies. In addition, US involvement and leadership in the EBRD demonstrate the American people's support for the reform process in Central and Eastern Europe. It also demonstrates our continuing commitment to an active role in Europe.

ECONOMIC ASSISTANCE TO AFRICA

MR. SECRETARY: You have said we are not doing enough for sub-Saharan Africa. I agree. But for next year you propose to cut our aid to Africa. How can you do that?

SECRETARY BAKER: At $560.5 million, the Administration's FY 1991 request for the Development Fund for Africa (DFA) will enable us to continue our support for Africa's long-term development at a level slightly above those of FY 1989 and FY 1990, despite strong pressures on the overall foreign affairs budget.

DFA Appropriations: FY 1989-91
(In millions of dollars)

	FY 1989 Actual	FY 1990 Actual	FY 1991 Request
Total	550.0	561.8	560.5
Compared with FY 1989		+2.1%	+1.9%
Disaster Reserve	NA	15.0	-----
Net of Disaster Reserve		546.8	560.5
Net Compared with FY 1990	NA	NA	+2.5%

If Congress approves our request for more International Disaster Assistance funds in FY 1991 ($40 million is being requested in FY 1991 versus $25 million in FYs 1989-90), more DFA resources would be available to support sub-Saharan Africa's efforts to rekindle broadly-based economic growth and social progress. Allocations under the DFA will continue to respond to the performance of the African countries themselves in undertaking and maintaining economic policy reforms and in restructuring their economies to compete better in world markets. Management of the DFA focuses on maximizing its contribution to long-term sustainable growth and development. The US also makes available to African countries considerable resources through our funding of multilateral organizations, such as the International Monetary Fund, the World Bank, the African Development Bank, and UNDP. For example, the Administration has recently committed an annual contribution of $1.06 billion to IDA (International Development Association) IX, approximately a $100 million increase over our annual contribution to the predecessor IDA VIII. Approximately half of IDA funding is earmarked for Sub-Saharan African countries. In addition, starting last year, under Section 572 of the Foreign Assistance Act, sub-Saharan countries with either a

World Bank or IMF structural adjustment program are eligible for forgiveness of development assistance debt owed the United States. So far fourteen countries have benefitted by forgiveness of $850 million in such debt, and another eight are potentially eligible for a total of $550 million in additional debt forgiveness.

SOVIET AID TO ANGOLA

SENATOR LEAHY: I have been an opponent of covert US support to UNITA since the beginning, and I oppose the Soviets supplying military aid to the Angolan government.

The Angolan government has said it is ready to sit down and negotiate face-to-face with UNITA. I hope they are serious. How actively have you personally pressed the Soviets on this issue? What is the difficulty in getting them to stop sending weapons to Angola?

MR. BAKER: During our meetings in Moscow, Windhoek, and Washington, I urged Foreign Minister Shevardnadze to use his influence with the MPLA to obtain Luanda's commitment to negotiate seriously with UNITA on a ceasefire and a political settlement. Although Soviet military assistance to Angola decreased from previous years, it still totalled approximately $800 million in 1989. Nonetheless, the Soviets have expressed their belief that there are no military solutions to the conflict. During our meetings in Moscow, Foreign Minister Shevardnadze joined me in urging a cessation of hostilities and a negotiated political settlement.

DRUG TRAFFICKING

SENATOR LEAHY: Mr. Secretary, your statement mentions the importance of controlling drug trafficking. Despite the hundreds of millions of dollars we have poured into the Andean region and the Caribbean over the years, we are still only stopping a tiny fraction of the drugs flowing into this country. In fact, the flow of drugs has increased.

This year you are requesting large increases in military and economic aid to those countries. Yet, except for creating what you call an "anti-drug cartel", there is very little to show for the money we have poured in there. What is the future of your strategy against these heavily armed drug lords?

MR. BAKER: An essential difference between previous narcotics control programs and the Andean strategy is the introduction of crack cocaine on the scene in 1985. Crack, a highly addictive cocaine product available in relatively small and inexpensive quantities compared to cocaine hydrochloride, expanded the trafficker market to include younger users throughout the U.S. This expansion and the relatively recent phenomena of heavily armed drug cartels combine to create a much more difficult situation than presented by the vast marijuana

cultivations in Mexico, Colombia and Jamaica during the 1970's and early 1980's. The aerial spray operations in these three countries are examples of successful narcotics control programs.

The five-year Andean strategy provides a comprehensive, sustained, coordinated and strategic program to assist military, law enforcement and economic development by strengthening institutional capabilities and improving effectiveness. This approach differs from previous U.S. assistance by putting significant emphasis on the importance of military involvement in the fight against traffickers and trafficker organizations. Expansion of counternarcotics programs to include military participation greatly increases commitments of the Andean governments to cooperate in a regional effort to reduce the supply of narcotics products and establish sound economic policies in the region.

SENATOR LEAHY: You have requested $441 million to fight drugs in the Andean countries. $137 million of that is military aid. What do you expect those funds to accomplish as far as cutting the flow of drugs into the U.S.?

MR. BAKER: The problem of reducing the movement of cocaine from the Andean countries into the U.S. is larger than that which can be handled above by law enforcement agencies. The situation has deteriorated into a serious national security issue in Colombia, Bolivia and Peru, requiring military organizations to supplement law enforcement activities and provide adequate security for law enforcement operations. The military can be employed to control vast air corridors, movements on the extensive river systems in the extremely remote jungle areas, and remote crossover border points. The Andean strategy is a multi-year plan to increase this effectiveness in the fight against narcotics production and trafficking.

PHILIPPINES

SENATOR LEAHY: According to a General Accounting Office Report last year, "most U.S. military aid provided to the Philippines under current foreign aid legislation becomes the property of the Philippines. The Philippine military is not required to and does not report on distribution of this aid. Additionally, U.S. attempts to monitor usage are dependent on the discretion of the Philippine military to allow U.S. officials access to Philippine bases and forces. U.S. access to these bases and forces is still limited."

Given the history of rampant corruption in the Philippine government and military, why should we give another dime until 1) the Philippine military agrees to report on how our aid is disbursed; and 2) agrees to adequate access by U.S. officials to Philippine bases and forces?

MR. BAKER: The Armed Forces of the Philippines (AFP) work closely with the Joint U.S. Military Assistance Group (JUSMAG) at the U.S. Embassy in Manila to develop and implement equipment and material programs, that are appropriate for AFP needs, using U.S. foreign military sales funds. Cooperation between JUSMAG and the AFP is excellent and satisfies U.S. oversight requirements.

The United States is also working closely with the AFP to rebuild its logistics system, which suffered from years of neglect under the Marcos government. Our programs have included sending training teams to the Philippines to teach the AFP proper logistical practices. These efforts have had good results.

JUSMAG officers have good access to AFP leaders and facilities, and we are confident that equipment purchased with U.S. assistance is being used for the counterinsurgency effort against the New People's Army and for other legitimate national defense purposes.

SENATOR LEAHY: Last year we appropriated $160 million for the Multilateral Assistance Initiative for the Philippines. This year you are requesting another $200 million for the MAI. What has been accomplished with the money we appropriated last year?

MR. BAKER: The $160 million appropriated for the MAI in FY 1990 has been allocated to five development projects. MAI funds will support project preparation and feasibility studies, improvements in the management of natural resources and the environment, the Mindanao Area Development Project, policy reforms and a capital projects funding facility. A March, 1990 reconnaissance mission of eleven US business executives found prospects for US business in the Philippines as a result of the MAI to be excellent.

A major accomplishment made possible by our contribution to the MAI this year was to provide substance to American leadership and diplomatic efforts to encourage other donors to participate in the Initiative. The results can be seen from the Tokyo Consultative Group meeting that launched the MAI in July 1989, when 19 countries and six multilateral institutions pledged a total of $3.4 billion for 1989/90. Total pledges were much greater than the $1.7 billion pledged at the Consultative Group meeting in Paris in 1987.

The Administration is seeking $200 million for our contribution to the MAI in FY 1991. U.S. leadership will be necessary to encourage other donors to continue their support. The success of the MAI in achieving its aim to support democracy by promoting self-sustaining growth and improved living conditions will be increasingly important as the Philippines deals with the difficult economic problems it faces.

SECURITY ASSISTANCE BUDGET

SENATOR LEAHY: The Warsaw Pact has disintegrated and you are asking for an increase in security assistance for Turkey, Greece and Portugal, from $992 million this year to $1.1 billion next year. Why?

SECRETARY BAKER: The changes which have occurred over the past year have not diminished the need for a strong NATO. It remains a key element in the preservation of Western security and promotion of a peaceful and orderly transformation of Europe.

Turkey and Portugal are the poorest members of NATO. Their armed forces have long lagged behind those of the other countries of the Alliance, particularly in terms of equipment modernization. Although Greece has a considerably higher per capita income level than these other two countries, it faces severe economic structural difficulties and also has important modernization needs to meet.

We look to Portugal to take on a greater air/sea defense role in the "strategic triangle" that controls access to the Mediterranean Sea. Turkey, in addition to its important NATO role, is situated geographically in a region of instability. Greece continues to play an important role in the defense of the Eastern Mediterranean.

These three southern flank Allies continue to have legitimate defense requirements even in the context of current change, and all three make important contributions to our security. We believe, therefore, that we should continue to provide them significant levels of assistance.

EASTERN EUROPE

SENATOR LEAHY: In your statement you note that our years of foreign aid spending have paid off. You say "let us not cut corners just as our long-standing commitments are paying off."

I agree. That is why I have been saying we should do more to get US business into the race in eastern Europe, where we poured in billions to rebuild Europe after World War II and billions more to support NATO.

Yet our support for US investment in Eastern Europe is a fraction of what our competitors are spending. Is that not cutting corners?

MR. BAKER: "Cutting corners" is the wrong way to describe an effort that has only just begun. Moreover, it is simply not accurate.

U.S. investment is essential for the economic growth needed to complement economic reform and to support the democratic revolution now underway in eastern Europe. The Administration strongly supports U.S. investment in the region for those reasons. The strength of this commitment should not be measured, however, by the number of taxpayer dollars spent in a fiscal year, but rather by the success of the effort to remove obstacles to investment, and to encourage

U.S. investors to consider the opportunities offered by eastern Europe.

U.S. investors now have access to project financing through both OPIC and the enterprise funds. Trade financing for capital goods is available through EXIM. TDP is there to conduct feasibility studies. U.S. investors will enjoy national treatment in Poland as a result of a treaty between the two countries which was negotiated in record time. Similar talks have begun with Czechoslovakia to provide the same treatment for U.S. investors there. Investor concern about political risk can be allayed both by OPIC as well as the World Bank, through the MIGA. Our Embassies, OPIC, and the Foreign Commercial Service are hard at work collecting information on investment opportunities in the region to provide to interested U.S. investors. OPIC has led two very successful missions to Poland and one to Hungary, with more on schedule to both countries and to Czechoslovakia.

The U.S. is the largest single source of foreign investment capital in the world, and that resource will be used to its fullest in eastern Europe. Until investment starts to flow, the U.S. will provide more direct aid, more grants, more technical help, and more training this year to eastern Europe than any other country. Furthermore, as economic growth begins and eastern Europe is able to make full use of trade credits, the U.S. will be there to meet that need.

VOTER REGISTRATION IN EL SALVADOR

SENATOR LEAHY: Some Salvadoran opposition leaders have begun to call attention to the effort the United States and others made to support free and fair elections in Nicaragua, and ask if a similar effort cannot be made in El Salvador. They point out that in the last Salvadoran presidential election, only one million people voted, as compared to 1.6 million in Nicaragua, which has about half the population of El Salvador.

The next elections in El Salvador are the legislative elections in March 1991. Why cannot we focus on those elections in an effort to draw in a much larger share of the population and broaden political participation in El Salvador?

SECRETARY BAKER: About 1 million Salvadorans voted in the March 1989 election, or about 54% of the nearly 2 million registered voters; El Salvador's population is approximately 5.2 million. In February, 1.6 million Nicaraguans voted, or about 87% of the 1.7 million registered voters; Nicaragua's population is approximately 3.5 million. I would also note that the voting age in Nicaragua is 16, while in El Salvador the voting age is 18.

FMLN violence explains in large part why "only" 54% of registered Salvadorans voted compared to 87% of Nicaraguans. In the months prior to the 1989 presidential election, the FMLN threatened electoral

officials, including voter registrars, and elected officials, including mayors, with death. The FMLN threatened 214 of the 262 mayors in El Salvador; more than 90 resigned rather than submit to "revolutionary justice." FMLN death squads killed 12 for failing to resign.

The guerrillas warned citizens not to participate in the elections, and declared a traffic stoppage for election day. On polling day, the FMLN unleashed a nationwide wave of violence in which more than 50 people were killed. The guerrillas burned dozens of buses and trucks carrying voters to the polls. Under the circumstances, it is remarkable that as many as one million Salvadorans were able to cast their ballots.

Each of the six national elections held in El Salvador since 1982 has been observed by dozens of observer teams from governments (including the USG and the governments of Britain, Canada, and Spain) and private groups. Each of those groups has found each of the elections to have been conducted freely and fairly.

We are in favor of continuing the process of democratization in El Salvador, including by increasing voter participation. The best way of accomplishing this would be for the FMLN to cease its violent attacks on the electoral process and those individuals -- registrars, elected officials, and ordinary voters -- who make democracy work in El Salvador.

SENATOR LEAHY: Would the Administration support an effort by this Subcommittee to direct a portion of El Salvador's aid in fiscal 1991 to support programs for voter registration, get out the vote and elections monitoring similar to what we did in Nicaragua?

SECRETARY BAKER: We share the Subcommittee's strong interest in supporting increased voter participation in El Salvador. In fact, we have provided assistance to El Salvador in the area of voter registration and elections monitoring through four elections since 1983. We intend to continue these programs, and expand upon them where appropriate.

We would not, however, support an effort by the Subcommittee to direct a portion of El Salvador's FY 1991 aid for this purpose. First, such a directive is unnecessary, given that we are already effectively providing assistance to elections. Second, new project funds are unnecessary since sufficient resources are already available from an ongoing dollar project and from ESF-generated local currencies.

We continue to favor observation of the electoral process by as many groups and over as long a time frame as possible.

As important as these steps can be, the key to increasing voter participation in El Salvador is to end the violence. The ongoing U.N.-brokered talks in Venezuela between the Salvadoran government and the guerrillas offer the best chance in years to end the war. We hope that the Venezuela talks will achieve an end to the violence and a political solution to the conflict.

EL SALVADOR

SENATOR LEAHY: Last June, this Subcommittee held a hearing on the issue of the diversion of military assistance to El Salvador to the Contras. The GAO presented a report which concluded that there had been an illegal diversion of MAP aviation fuel provided to the Salvadoran Air Force for the Contra resupply operation.

As part of that hearing, we examined the issue of whether the Salvadoran Air Force had improperly used funds derived from the sale of MAP fuel. We were informed that while no improper use of these proceeds had occurred, nevertheless steps would be taken to improve accounting for such assistance.

GAO testified on March 20, 1990 before the House Foreign Operations Subcommittee that, "In June 1989 testimony on the fuel sales and credit system, a DOD official stated, in part, that DOD had 'taken appropriate steps to ensure...that payments received for authorized transfers are properly controlled and reutilized.' Our subsequent check disclosed that this was not the case. We found that the fuel proceeds were placed in a Salvadoran account used for commercial purchases that is not reviewed or approved by the U.S. Government, as the Congress and GAO had been led to believe. From April 1987 to September 1989 [i.e., four months after the June 1989 hearing before our Subcommittee], the Salvadoran military used the proceeds in the account to make over $1 million in commercial purchases. Among the items funded from this account were a $350,000 purchase of buildings in El Salvador, despite U.S. Government concerns that the property was overvalued, and a car for the Salvadoran military attache in Washington. In addition, funds were planned for but not expended on two trips by the then Salvadoran Air Force Commander."

This testimony is extremely disturbing. Please provide a full accounting as soon as possible to the Subcommittee on: (a) the uses to which the proceeds from this Salvadoran account are being put; (b) whether there is any question of illegality or misuse of U.S. military assistance; (c) what specific actions the United States is taking with respect to any illegal or improper use of U.S. military assistance; (d) whether the United States is seeking recovery of funds derived from U.S. military assistance placed in this unauthorized Salvadoran account; and (e) why actions to provide for proper accounting for these proceeds were not taken despite assurances given this Subcommittee.

The GAO testimony of March 29, 1990 goes on to indicate similar concerns about inadequate controls over, and accounting for, proceeds from military fuel transfers to other nations, including Honduras, Israel, and the Philippines. Please inform this Subcommittee as soon as possible whether any control or accountability problems exist with respect to those countries, or any others which receive U.S. military fuel transfers.

SENATOR LEAHY: Please provide a full accounting as soon as possible to the Subcommittee on the uses to which the proceeds from this Salvadoran account are being put.

SECRETARY BAKER: As the General Accounting Office (GAO) testified before the House Foreign Operations Subcommittee on March 20, 1990, the funds generated by El Salvador's sale of FMS-origin aviation fuel were initially deposited in a commercial account, consistent with the procedures in place at the time. However, contrary to GAO's assertion that El Salvador's subsequent purchases drawing on these funds were not approved or reviewed by the U.S. Government, the Department of Defense (DOD) informs us that it did monitor such purchases.

In response to GAO's testimony about the specific uses to which the account was devoted, DOD has provided the following information. While DOD is aware of concerns about the assessment of the commercial property in question, it believes that the $350,000 valuation is supportable and represented a legitimate expenditure. Likewise, it deemed the purchase of the automobile for the Salvadoran military attache to be a valid request, and notes that other military attaches in the U.S. have received the same authorization. Finally, the trips cited in the GAO's report as planned, but not taken, by the Salvadoran Air Force Commander constituted official travel in connection with the performance of his duties.

To comply with the new procedures DOD has since implemented in order to improve accountability for proceeds of third party transfers of FMS-origin items, all remaining funds in this commercial account were deposited into El Salvador's FMS account effective November 30, 1989. Since that time, this money may only be used for payment on FMS cases to cover initial deposits, scheduled payments, or cost overruns, and then only with the prior concurrence of the USG.

SENATOR LEAHY: Is there any question of illegality or misuse of U.S. military assistance in El Salvador?

SECRETARY BAKER: No. In the aftermath of the aviation fuel diversion, which the Department of State reported to the Congress on June 30, 1989, the U.S. Military Group, U.S. Embassy, Agency for International Development (AID), and the General Accounting Office (GAO) have all conducted periodic investigations into the day-to-day operations of the U.S. security assistance program in El Salvador. None of these inquiries has revealed any evidence that U.S. security assistance has been diverted to illicit or improper uses in El Salvador. Indeed, the most recent GAO study available, covering calendar year 1989, found no evidence that any U.S. military aid has been diverted.

SENATOR LEAHY: What specific actions is the United States taking with respect to any illegal or improper use of U.S. military assistance in El Salvador?

SECRETARY BAKER: Since there is no evidence of wrongdoing on the part of the Government of El Salvador

in regard to the proper disposition of, and accounting for, U.S. military assistance, there has been no need to take further action. However, on November 30, 1989, DOD promulgated regulations to prevent recipients of U.S. security assistance from putting proceeds from the sale of FMS-origin defense articles and services into accounts which could be used for any purpose other than FMS agreements. As part of the same directive, DOD established a separate holding account for all monies generated by third party transfers of foreign military sale (FMS)-origin defense articles, in order to control the use of such funds and to preclude any appearance of impropriety. This account may only be used for payment on FMS cases, such as initial deposits, scheduled payments, or cost overruns, and then only with the prior concurrence of the USG.

SENATOR LEAHY: Is the United States seeking recovery of funds derived from U.S. military assistance placed in this unauthorized Salvadoran account?

SECRETARY BAKER: El Salvador has already replaced the 61,107 gallons of aviation fuel in question. However, the record should reflect the fact that, at the time, the Salvadoran account was authorized to hold revenues generated by the sale of FMS-origin items.

SENATOR LEAHY: Why were actions to provide for proper accounting for these proceeds not taken despite assurances given this Subcommittee?

SECRETARY BAKER: DOD informs us that due to an administrative oversight, it did not establish a separate holding account for transactions involving third-party transfers of FMS-origin equipment in El Salvador until November 30, 1989. DOD subsequently instituted procedures to ensure that timely action will be taken in regard to any similar situation in the future.

SENATOR LEAHY: The GAO testimony of March 29, 1990 goes on to indicate similar concerns over, and accounting for, proceeds from military fuel transfers to other nations, including Honduras, Israel, and the Philippines. Please inform this Subcommittee as soon as possible whether any control or accountability problems exist with respect to those countries, or any others which receive U.S. military fuel transfers.

SECRETARY BAKER: DOD informs us that recent audits in the three countries cited, conducted during the course of its regular inspections of U.S. security assistance programs worldwide, have revealed instances in which U.S. procedures for the transfer of FMS-origin defense articles such as aviation fuel may not have been fully observed. While there is no evidence that any funds have been diverted or misused, DOD has formally reminded the U.S. military groups in these three countries of their responsibility to monitor all third-party transfers of FMS-origin goods carefully. In addition, it has instructed the Security Assistance Accounting Center (SAAC) to establish trust accounts on

the El Salvador model to hold proceeds of the sales of any MAP-funded fuel by Honduras, Israel, and the Philippines.

DOD's audits have uncovered no evidence that similar control or accountability problems exist with respect to any other countries which receive U.S. military fuel transfers. Nonetheless, to preclude any possible misunderstanding of proper procedures, DOD has reaffirmed its standing worldwide policy not to approve transfers of items which have been in a country's inventory for less than three years, unless the recipient country agrees to deposit the resale proceeds into its FMS trust fund account.

EL SALVADOR - JESUITS CASE

SENATOR LEAHY: The New York Times of May 1 has a front page story on the release of the House Task Force report on the murders of the six Salvadoran priests.

The report concludes that the Salvadoran investigation of these murders has reached a "virtual standstill," and that no attempt is being made by the Salvadoran judge to explore the possible complicity of high ranking officials beyond Colonel Benavides.

The Times also reports that "State Department officials endorsed much of the conclusion (of the report), expressing impatience and disappointment with the pace of the official Salvadoran investigation."

What actions are you taking to put pressure on the Salvadoran government to ensure that this case moves forward?

SECRETARY BAKER: We have lost no opportunity to impress upon the Salvadorans, including President Cristiani, the military high command, and judicial authorities, the crucial importance of resolving this case to continued U.S. support to El Salvador. We could not be more direct nor more insistent in our delivery of this message.

We have also taken an extremely active role in monitoring the investigation and in identifying and suggesting possible leads to the Salvadorans. Our Embassy officials, recognizing the urgency of cooperation between the investigative team, the Special Investigative Unit (SIU), and the judge in charge of the case, have made every effort to facilitate this collaboration. The Embassy has also sought to alleviate whatever security concerns the judge may have by offering to arrange protection. In short, we have taken every possible measure to move the investigation forward toward prosecution.

TRAINING OF SALVADORAN MILITARY UNIT

SENATOR LEAHY: According to the Defense Department, U.S. Special Forces were training the very unit that committed the Jesuits murders in El Salvador as recently as three days before the murders. I am told this was an elite battalion that has received a full decade of

training from the United States, yet was implicated in a string of human rights atrocities throughout the 1980s.

Can you explain that? What action should be taken in a case like this where there is report after report after report from eyewitnesses and survivors of gross human right abuses by military units trained and equipped by us?

SECRETARY BAKER: Over the past decade, it has been alleged that members of the Atlacatl Battalion have committed several specific unlawful killings. These reports have not been proven by the investigations which followed the allegations. I would note that the membership of the Atlacatl has probably completely turned over several times since 1981. The soldiers in the Atlacatl today were not in the unit 10 or even five years ago.

The horrendous killing of the Jesuits was promptly and professionally investigated by the Special Investigative Unit. The individuals implicated by the investigation were members of the Atlacatl and the head of the Salvadoran Military School. There is no evidence, however, that the military institution or the leadership of the Atlacatl Battalion was involved in the crime.

SENATOR LEAHY: Shouldn't we at the very least demand either demand the dismissal and prosecution of blatant offenders?

SECRETARY BAKER: Yes. In the Jesuit case, we have made it clear to the Salvadorans that we expect a full, prompt investigation and an aggressive prosecution of those implicated. The investigation and judicial proceeding are now underway. We have precisely the same view of other abuses reportedly committed by the Salvadoran military: that allegations be investigated, and that those implicated should be tried.

QUESTIONS SUBMITTED BY SENATOR DANIEL INOUYE

THE WAR AGAINST DRUGS

SENATOR INOUYE: Mr. Secretary, last December, the State Department printed a text of your speech before the Forum Club in Houston in which you discussed the Administration's international efforts to fight the war on drugs. During that speech, you spoke of a multiyear $2 billion American plan to provide military, economic, and law enforcement assistance to the Andean nations in their efforts to fight the growth and exporting of cocaine as well as the need to assist in developing alternative incomes to the drug industry. Is the State Department able to provide details as to how this money will be spent to aid the Andean nations in the fight against drugs?

MR. BAKER: The $2 billion program for Colombia, Bolivia and Peru is to support the Administration's

five-year counternarcotics Andean implementation plan, announced by President Bush on September 5, 1989. We are cooperating closely with the governments of the three Andean countries to implement a comprehensive program to strengthen political commitment, increase effectiveness of law enforcement and armed forces efforts, and disrupt trafficker organizations and infrastructure to reduce the flow of narcotics products in the U.S. In separate briefings, our International Narcotics and Inter-America Bureaus provided details on use of the funds.

SENATOR INOUYE: How much of the approximately $2 billion dollars will be spent on law enforcement and interdiction and how much will be devoted to encouraging peasant farmers to grow alternative crops?

MR. BAKER: Over the course of implementing the five-year Andean strategy to reduce the amount of cocaine into the U.S., our present plan calls for approximately $404 million for law enforcement and interdiction, $907 million for economic assistance, and $705 million in military assistance. In FY 1990, the emphasis is on providing approximately $240 million in military, development, and law enforcement assistance to provide Colombia, Bolivia and Peru the resources to expand their counternarcotics efforts. To encourage the Andean governments to adopt sound and effective counternarcotics programs, approximately $208 million in development and economic assistance is available in FY 1991. The decision to approve counternarcotics economic assistance in FY 1991 and the following years will depend on whether U.S. evaluations of the overall counternarcotics programs indicate positive progress. It is our expectation that precise amounts for each aspect of the program will be adjusted as a result of an annual review and evaluation of the goals, objectives and measures of performance set forth in the implementation plan.

SENATOR INOUYE: One of the industries that can contribute to the movement away from the reliance on coca production for cash is the coffee industry. It has been estimated that the collapse of the 74-nation coffee agreement caused a sharp decline in world coffee prices and cost the Colombian economy over $500 million.

Can you tell me what the chances are of reaching an agreement at this time so that the Colombian farmers will feel an incentive to grow coffee and not coca beans?

MR. BAKER: The President has made a commitment to seek a new International Coffee Agreement (ICA) that solves the problems of the 1983 ICA. This commitment was communicated to President Barco of Colombia. The Administration has pursued every opportunity to achieve this goal, and we remain committed to it. Because world coffee prices have

increased to levels which begin to satisfy some coffee producers, interest in renegotiating the ICA has recently declined in some countries.

Prices for the type of coffee produced in the Andean countries have recovered some of their lost ground, so that the effects of the ICA collapse in these countries have been less harmful than was predicted at first. Colombia, which produces some of the highest quality coffee, has been able to increase exports to make up for much of the revenue lost through the price decline. Our latest figures show that coffee export earnings in calendar year 1989 were only $106 million under 1988 earnings.

Most Colombian involvement in the narcotics trade has been in processing and trafficking cocaine, not growing coca leaf. The level of Colombian coca leaf production is small compared to Bolivia and Peru. In addition, the Colombian coca leaf yields much less cocaine during processing. For these reasons, coca crop substitution in Colombia is not as critical a problem as it is in Peru and Bolivia. Bolivia and Peru, where most of the coca cultivation is carried on, hope that coffee will be an important replacement for coca as a cash crop. Their coffee exports were restricted under the old ICA and they have expressed concern that a new International Coffee Agreement be structured in a way that permits them to export increased production achieved through crop substitution programs. Our position is that any future ICA should be responsive to market demand; since Bolivian, Peruvian and Colombian coffees are in high demand, our position is supportive of their needs.

THE HIG GUARANTEES FOR ISRAEL

SENATOR INOUYE: Mr. Secretary, in your testimony before the Congress last month you stated that the Administration would seek a guarantee that the HIG funds will not be spent on housing in the occupied territories.

Will the Administration seek a guarantee from the Israeli government that the HIG monies will not be used for the providing of housing in the occupied territories?

SECRETARY BAKER: Yes.

SENATOR INOUYE: If such a guarantee is being sought will it specifically mention settlements in Jerusalem?

SECRETARY BAKER: No, but we will seek assurances that apply to the territories occupied by Israel in 1967.

NATO FORCES IN GERMANY

SENATOR INOUYE: Mr. Secretary, with German reunification a definite possibility by year's end, the NATO Alliance will need to adjust to the fact that its most-important front-line state will now have approximately an additional 17 million people whose former government was a member of a Soviet dominated military alliance.

Once German reunification occurs, does the Administration support leaving NATO troops in their current basing mode? Is the German government supportive of the United States maintaining a military presence on the soil of a reunited Germany?
SECRETARY BAKER: The FRG has made it clear that it wants U.S. forces to remain in Germany following unification, although their numbers undoubtedly will be reduced by an eventual CFE agreement. Both German governments have already indicated that a united Germany will remain a member of NATO. For a transitional period, we and the FRG have proposed that no NATO or Bundeswehr troops be stationed in current GDR territory. This latter issue will be discussed between the two Germanys and with the Soviet Union, as well as at NATO.

FUTURE OF NATO

SENATOR INOUYE: Mr. Secretary, there has been talk that NATO would adapt to the changing European security picture by emphasizing its value in helping to more orderly manage the transition to a "new Europe."

With the Warsaw Pact falling apart and its value as a military alliance decreasing daily, do you see NATO evolving into more of a political alliance that can help oversee the transition to a new security arrangement for Europe?
SECRETARY BAKER: Since its founding, NATO has had a strong political role in fostering cooperation among the like-minded democracies of the Alliance. As Warsaw Pact cohesion erodes and threats to security and stability change, the political aspects of European security will receive new emphasis. At the same time NATO will, for the foreseeable future, maintain a strong security role, in view of continuing significant Soviet military capabilities. It is important not to overlook this role. But it is equally important that NATO retain the resilience it has shown for over 40 years in adapting to changing circumstances.

In the years ahead, NATO consultations will play an increasingly important role in defining a common Western approach to East-West security issues and to regional conflicts. Already it is actively discussing security elements of German unification, and the evolving situation in the Soviet Union. NATO also increasingly will take on new challenges, ranging from CFE verification to forming common Western approaches to the threat posed by the proliferation of destabilizing military technologies, including chemical and biological weapons and missiles capable of delivering these weapons.

PHILIPPINES

SENATOR INOUYE: Mr. Secretary, last December President Aquino, with U.S. help, was able to put

down an attempted coup by rebel units of the Philippine armed forces. Many individuals feel that she will not be able to survive a 7th attempted coup.

At this time, do you feel that she has taken the necessary steps to alleviate the conditions necessary for another coup to be attempted? Do you think that another coup is likely now or in the future?

MR. BAKER: President Aquino is taking energetic measures to arrest and prosecute participants in the December coup attempt. The Philippine government has made several important arrests, and continues to search for fugitive rebels, whose main motivation appears to be to try to seize power for themselves by overthrowing the democratically elected government. The Aquino administration remains in full control throughout the country.

President Aquino has taken other important steps to prevent another coup attempt. The Philippine government has improved its intelligence capabilities and taken measures to make planning and logistics for another attempt more difficult.

Since coming to power in 1986, President Aquino has worked to increase the professionalism of the Philippine military and to end the politicization of that organization, which was endemic during the Marcos years.

I believe that it would be inappropriate for me to speculate whether another coup attempt is likely, now or in the future. We do know that all previous attempts have failed.

SENATOR INOUYE: Mr. Secretary, one of the reasons that the Congress funds the MAI for the Philippines is to help the Philippines preserve its critical natural resource base. Last July, the MAI framework document barely mentioned the environment.

What steps has the United States taken with the Aquino Government to help preserve the environment?

MR. BAKER: The USAID Mission in the Philippines has been involved in a wide range of activities to improve natural resources management and the environment. Debt-for-nature swaps, resource management and collaboration with non-governmental organizations (NGOs) working on environmental issues are currently part of the AID portfolio.

A mini-Consultative Group of interested Multilateral Assistance Initiative (MAI) donors, including the United States, met February 13-14 to discuss assistance strategy on the environment and natural resources with the Philippine government and NGOs. The USAID Mission is developing new activities to be funded under the MAI. Areas of focus will include forestry, NGO contributions, Philippine government policy enforcement, and another debt-for-nature swap. Approximately $25 million is planned for the program in FY 1990.

The Philippine Department of Environment and Natural Resources (DENR) looks to AID as a reliable source of technical assistance and encouragement of

other donors to contribute to programs in the environment and natural resources sector. At the invitation of the Secretary of DENR, AID has become a management partner of the $240 million Reforestation Project sponsored by the Asian Development Bank and the Overseas Economic Cooperation Fund. AID is providing the services of highly qualified personnel to speed the project's implementation, as well as additional support to examine environmental costs as part of the national income accounts.

AID will provide about $500,000 through the beginning of FY 1991 to bring representatives of the American PVO community to the Philippines to assist in the development of Philippine NGOs concerned with the environment and natural resources sector.

SENATOR INOUYE: There have been reports both on television and in the newspapers about the effect energy shortages in the Philippines are having on economic growth, the conducting of everyday business and the ability to attract foreign investment. Concern has been raised that the power shortages are bringing out feelings of discontent that could result in another coup.

Do you feel that the energy shortages being experienced could create the conditions necessary for another coup attempt? What portion of American aid is being devoted to helping rebuild the Philippines' aging energy infrastructure?

Mr. BAKER: Electrical power shortages, particularly around metropolitan Manila, are an economic and to some extent political problem for the Philippine government. While there is obviously going to be public dissatisfaction over interruptions in electric service, this cannot be directly connected to the likelihood of an attempted coup.

The extended drought, which has contributed to the electric power problem by reducing hydroelectric production, should be over with the beginning of the rainy season in June. To address the problem now, the Philippine government is installing several small generating plants which can quickly come on line, and for the longer term is changing policies to attract foreign investment into the electric power generation sector.

US economic assistance has helped the Philippines deal with electric power problems, particularly rural electrification, for many years. An important part of our current efforts is coordination with other donors to help the Philippine government deal with energy problems. Philippine needs for financing of energy infrastructure are greater than the government or any one donor can meet, and the private sector will have to become involved with financing, technology and expertise.

Multilateral banks, with our support, provide financing for energy infrastructure in the Philippines and support for policy changes to address longer term problems. The World Bank is providing

$390 million in financing as part of a $3.5 billion energy sector project approved earlier this year. The Multilateral Assistance Initiative (MAI) is also addressing power problems. USAID and the EXIM Bank are planning a capital projects funding facility, to include an initial $30 million of the FY 1990 US MAI contribution, which will support private sector efforts to improve power service. An energy development support program is being planned, to be funded by an estimated $20 million from the FY 1991 US MAI contribution.

ANGOLAN PEACE PROCESS

SENATOR INOUYE: Mr. Secretary, it is my understanding that the MPLA has agreed to begin peace talks with UNITA. Can you tell me what the status of the negotiations for a settlement are at this time? Is Foreign Minister Shevardnadze interested in working with the United States to help bring about a settlement?

MR. BAKER: The initial direct talks held April 24-25 in Portugal were a helpful first step in the search for a political settlement, which we believe is the only means to achieve a lasting peace in Angola. We hope this process will continue, leading to a mutually acceptable ceasefire and national reconciliation, followed by free and fair elections. During our February meeting in Moscow, Foreign Minister Shevardnadze joined me in urging a cessation of hostilities and a negotiated political settlement. The Soviets share our belief that there is no military solution to the conflict.

IRAQ

SENATOR INOUYE: Iraq's statements regarding the use of chemical, biological and nuclear weapons in the Middle East have been termed "inflammatory, irresponsible, and outrageous" by the State Department. Recent attempts to smuggle nuclear trigger devices and the testimony of numerous arms experts suggest that Iraq is developing, or already possesses, nuclear capabilities, despite repeated denials. Iraq has proven its willingness to use chemical weapons against Iran and its own people, killing an estimated 3,000 with poison gas in 1988. What sanctions is the Administration prepared to impose against Iraq for these "outrageous" actions?

SECRETARY BAKER: We maintain strict controls on the export of sensitive items to Iraq: we do not sell Munitions List items to Iraq, the export of 50 chemicals considered possible CW precursors is tightly controlled, and all license requests for items that might contribute to Iraq's ability to develop nuclear weapons are rejected. Our considered assessment is that Iraq, a party to the Nuclear Non-proliferation Treaty, does not represent a near term nuclear proliferation threat. We have made an independent assessment based on our own best information. We made known to the Iraqi Government in very direct terms our concerns arising from recent Iraqi actions and intemperate statements. As I said in my testimony, we are currently reviewing a number of options in light of these

events. Any decision on further specific steps would have to await the outcome of that review.

SENATOR INOUYE: Does the Administration believe President Saddam Hussein's actions and remarks warrant any reassessment of U.S. ties to Iraq.

SECRETARY BAKER: That is a part of the policy review.

SENATOR INOUYE: Specifically, what action is the Administration prepared to take in reponse to Iraq's threats against American interests in the Middle East?

SECRETARY BAKER: Any decision on specific steps would have to await the outcome of the review.

SENATOR INOUYE: How is the Administration "working to lessen tensions with Iraq" as recently reported in the Washington Post?

SECRETARY BAKER: That is the newspaper's characterization. We consider Iraq an important country and want to develop a strong and mutually beneficial relationship. However, we have stressed to the Iraqis that this can only happen if relations are a "two-way street" in which Iraq acts responsibly and takes the legitimate concerns of the U.S. into account. We have urged others in the region, in their own interest, to encourage Iraq to moderate its behaviour. If that were achieved, it would lower tensions in the region and serve U.S. interests.

IRAQ: EXPORT ASSISTANCE

SENATOR INOUYE: The U.S. provides Iraq with agricultural credits totalling approximately $1 billion per year and Export-Import Bank credits worth approximately $200 million per year. By providing these credits, the U.S., in effect, is enabling Iraq to use its hard currency for other purposes, thus facilitating its development of chemical and nuclear weaponry. Do you believe it is prudent for the U.S. to continue providing Iraq with these credits, particularly after it has publicly threatened western interests and allies in the Middle East?

SECRETARY BAKER: The United States does not provide credits to Iraq. Both the Commodity Credit Corporation and Exim have credit insurance programs. The actual financing must come from commercial banks, repayable in hard currency. The insurance helps Iraq get better interest rates. However, the real benefit is to U.S. exporters who otherwise would be severely disadvantaged -- effectively non-competitive -- against exporters from other countries who draw on their own pools of export subsidies and government-guaranteed credit. This year, CCC has made available to Iraq $500 million in credit guarantees for commodity purchases. Exim has a short-term rotating $200 million credit insurance facility for Iraq.

SENATOR INOUYE: Should U.S. trade with Iraq be limited to only those items for which it pays cash and which do not involve technology exports?

SECRETARY BAKER: We already have stringent controls on the export of technology to Iraq, and we work with our allies to try to ensure that they maintain similar limits. However, to

insist on cash-only sales would have no significant effect on Iraqi imports and would deliver the U.S. market share to European and Japanese competitors.

EXIM CREDITS

SENATOR INOUYE: According to a recent report, 40 percent of the Export-Import Bank's total portfolio is in default. Iraq's record of repayments is among the Bank's poorest, causing it to suspend all new loans in 1985. Subsequently, the Bank has resumed loaning to Iraq, in effect ignoring its own external assessment that Baghdad is a bad credit risk. Why does the Export-Import Bank continue to throw good money after bad when its own officials have expressed skepticism about the credit worthiness of the country? What role has the Department of State played in encouraging the Export-Import Bank to continue conducting business in Iraq?

SECRETARY BAKER: The Export-Import Bank does not extend loans to Iraq; it insures specific, appropriate short-term loans up to an aggregate ceiling of $200 million.

The program, which started in 1985, was suspended after the 1986 collapse of oil prices led Iraq to delay payments. In 1987, Iraq became current on its obligations insured by Eximbank. Exim's Board determined at that time that Iraq's credit position would justify opening a short-term revolving insurance facility with a $200 million exposure limit. Coverage was resumed under these terms in August, 1987, and Iraq has adequately serviced its obligations under Exim coverage since then.

Eximbank's position on Iraq is similar to or more conservative than that of most major export credit agencies. For example, the British ECGD extends £250 million in direct medium-term loans to Iraq; Turkey just extended $800 million in new export credits.

Since Exim resumed cover, Exim has not had to pay out a single claim on insurance covering Iraqi risk. and we anticipate that Iraq's creditworthiness will continue to improve.

The Export-Import Bank is statutorily required to make its decisions on financial and commercial factors alone and it extends cover to Iraq on this basis. The State Department advised the President that we favored a determination against the application of the prohibition against Eximbank programs in Iraq as provided in Section 512 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990 (P.L. 101-167). Our justification stated in part that "it is in the national interest of the United States to maintain economic and political incentives, such as the short-term Exim credit insurance, to encourage Iraq to moderate its behavior and increase our ability to deal effectively with Iraq on issues of importance to the United States. We also wish to pursue and seek

to facilitate opportunities for U.S. firms to participate in the post-war reconstruction of the Iraqi economy."

Despite these U.S. interests in the Exim program in Iraq, we would not support it if it were financially unsound. The program Exim has with Iraq now is fully justified on banking grounds in addition to its role in facilitating U.S. exports.

EXIM BANK: CREDITS FOR CHEMICAL SHIPMENTS TO IRAQ

SENATOR INOUYE: Earlier this year the President issued a waiver to Section 512 of the Foreign Operations and Related Programs Act. This waiver lifted a ban on the use of Export-Import Bank resources to support Iraq. Immediately upon issuance of the waiver, Exim began processing an application from an American exporter for financing for the sale of "lab chemicals" to Iraq. Ex-Im has been unable to provide my staff with any information on these chemicals and whether or not they are precursors for chemical weapons. Are you aware of this financing request and whether these chemicals have any weapons application? Who is monitoring Ex-Im applications to ensure that the Bank's resources are not being used to enhance Iraq's chemical, biological, nuclear, or ballistic missile capability? What role does the Department of State play in this process?

SECRETARY BAKER: The U.S. export of lab chemicals is one of a long list of transactions under Eximbank's short-term insurance facility. As you are aware, the Bank is statutorily prohibited from financing military sales to developing countries. Whenever there is a question concerning military or any chemical weapons applications of a proposed U.S. export, Exim's Engineering Division reviews the transaction to ensure it does not have such applications. The Engineering Division did so in this case.

In addition, whenever there is any question concerning chemical, biological, nuclear, or ballistic-missile weapons applications of a proposed U.S. export, Exim consults with the Department of State. Our Embassies abroad are also sometimes asked to develop information and advise on the potential use of a product being considered for Exim financing support.

SAUDI ARABIA: COMPUTER

SENATOR INOUYE: As you know, Saudi Arabia has purchased a powerful Cray computer from the United States. It is my understanding that this computer is an invaluable tool for the development of nuclear weaponry. Are there any indications that Iraq has access to Saudi Arabia's Cray computer?

SECRETARY BAKER: No. There is no indication that Iraq has access to the computer.

SENATOR INOUYE: What controls does the U.S. put on the use of American technology transferred to Saudi Arabia and are you confident that technology with nuclear applications could not be used to benefit Iraq?

SECRETARY BAKER: The computer, which was sold to Saudi Aramco, is operated with the assistance of Cray technicians, who are on site at all times. There is no remote access to the computer. The computer includes built-in safeguards to monitor programs utilized. Any deviation from the limited number of complex seismic programs Aramco uses would be detected instantly, and the computer would be disabled.

PLO BID FOR MEMBERSHIP IN WHO

SENATOR INOUYE: The PLO has once again renewed its efforts to obtain full membership as a state in the World Health Organization. Last year the Administration vigorously opposed these efforts, threatening to withhold U.S. funding for WHO, should the PLO succeed. Will the Administration actively oppose the PLO's most recent attempt at obtaining membership in WHO?

SECRETARY BAKER: Largely due to United States efforts, the World Health Assembly adopted without a vote a resolution which postpones sine die the PLO's bid for membership as "Palestine." The United States strongly opposed the PLO's application because of serious legal and practical concerns. Our delegation worked diligently to ensure that the PLO did not obtain membership. The self-proclaimed "state of Palestine" does not meet the internationally accepted criteria for statehood. Therefore, it is not eligible for membership in WHO, an organization whose constitution permits membership only to states.

SENATOR INOUYE: Specifically, is the Administration still committed to pulling the U.S. out of WHO and withdrawing funding, should the PLO succeed?

SECRETARY BAKER: In negotiations, the delegation stressed that two separate provisions of U.S. law call for a cutoff of both assessed and voluntary contributions to any UN-affiliated organization that admits the PLO to membership.

SENATOR INOUYE: How do you view the PLO's decision to go forward with this matter?

SECRETARY BAKER: The membership application presented major legal obstacles from the outset, as I stated above. The self-proclaimed "state of Palestine" does not meet the internationally accepted criteria for statehood. Therefore, it is not eligible for membership in WHO, an organization whose constitution permits membership only to states.

SENATOR INOUYE: Do you expect the PLO to mount another major campaign throughout the UN system to gain membership as a state?

SECRETARY BAKER: The US continues to vigorously oppose any such effort to enhance the status of the self-declared "state of Palestine." There is also Congressional legislation calling for a cutoff of funds to any UN organization that admits the PLO as a member state. The PLO does not possess the generally accepted criteria for statehood and therefore is not eligible for membership as a state in any UN organization.

SENATOR INOUYE: Will the U.S. attempt to repeal U.N. Resolution 3379, the so-called "Zionism is Racism" resolution?

SECRETARY BAKER: The U.S. wants to see this odious resolution repealed as soon as possible.

QUESTIONS SUBMITTED BY SENATOR FRANK LAUTENBERG

CYPRUS

SENATOR LAUTENBERG: Mr. Secretary, a number of Senators, including myself, recently sent a letter to President Bush expressing our concern over the breakdown of the Cyprus negotiations. In that letter, we requested that President Bush place a greater emphasis on the Cyprus problem and recommended that he send you to the region to communicate that the U.S. does not regard the status or any form of partition of Cyprus, as a solution. Since the breakdown of the talks, what steps is our government taking to elevate the Cyprus problem on the foreign policy agenda?

SECRETARY BAKER: I want to confirm that the President and I recognize the Cyprus problem as a high priority issue on the U.S. foreign policy agenda. Our objective remains a settlement acceptable to the two communities on Cyprus, negotiated by them through the "good offices" mandate of the U.N. Secretary General. In this regard, we do not regard the status quo as acceptable, and we reject any form of partition or secession and have so made clear to all countries in the region.

Our most recent action in pursuit of the goal of a negotiated settlement is to send the U.S. Special Cyprus Coordinator, Ambassador Nelson Ledsky, to Greece, Turkey and Cyprus to assess firsthand the prospects for the U.N. in the months ahead, and to investigate how such talks might be scheduled and conducted.

ROMANIA

SENATOR LAUTENBERG: There have been many press reports and some firsthand reports from credible witnesses like the Reverend Laszlo Tokes (pronounced Turkish) about violence and repression of ethnic Hungarians stemming from a resurgence of Romanian nationalism. Some of the ugly incidents took place in the town of Tirgu Mures, which is

half ethnic Hungarian and half Romanian.

What is the Administration's assessment of that situation, and how much of a threat does resurgent nationalism pose to Romania's ability to become a multinational democracy?

SECRETARY BAKER: The problem of resurgent nationalism in Eastern Europe, which was long suppressed under communist regimes, now occupies our close attention because of the liberalized environments that now permit a wide range of political expression and action. In Romania, we have seen signs of growing Romanian nationalist sentiment, in part responding to more assertive efforts by the ethnic Hungarian minority to reclaim educational and cultural rights eroded during the Ceausescu era. The reconciliation of the rights of the Romanian ethnic majority with those of the country's ethnic minorities is a major concern of the current interim government, and no doubt will occupy the attention of the new government elected on May 20.

SENATOR LAUTENBERG: Has the administration expressed its concern to the new Romanian government? What further steps does it plan to take?

SECRETARY BAKER: At the time of the tragic outbreak in mid-March of ethnic violence in Tirgu Mures, the administration publicly condemned the violence and provocations which had inflamed ethnic tensions on all sides and called for dialogue between the Romanian and Hungarian communities to resolve their differences in a democratic fashion. We endorsed Romanian President Iliescu's call for calm, his efforts to restore public order, and his creation of a committee of inquiry to foster negotiations between the two feuding groups. We also urged the Romanian government to take all necessary steps to fulfill its obligation to protect the human rights of every Romanian citizen.

The U.S. supports the process of negotiation and conciliation, as did Reverend Tokes during his visit in March to the U.S., as the only legitimate means of advancing the rights of ethnic minorities. We continue to follow developments in this area closely.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

EL SALVADOR: JESUITS CASE

SENATOR HARKIN: On February 8, when Assistant Secretary Aronson appeared before this subcommittee, I raised the question of what was discussed at a meeting of some 30 Salvadoran officers that took place in the

evening of November 15 just hours before the murders of the six Jesuit priests, their housekeeper and her daughter.

According to news reports, a number of subjects were discussed at that meeting, including increased use of airpower to combat the FMLN rebels who by then had occupied several communities in San Salvador.

News reports also mentioned that how to deal with FMLN supporters may also have been discussed then.

Also, I have been informed that among those 30 officers were Army Chief of Staff Ponce, then Air Force Chief General Bustillo, the head of Salvadoran intelligence and the commanders responaible for security zones in San Salvador. Colonel Benavides also attended that meeting.

On February 8, I specifically asked Secretary Aronson whether he could provide me a list of those officers who attended that November 15 meeting.

I also asked Secretary Aronson whether any of those officers who attended that meeting were questioned by the SIU or the U.S. Embassy, or whether any of those officers were given a lie detector test, the same test administered to Mrs. Cerna, the first witness in the Jesuits case, as well as U.S. Major Buckland, who provided the information linking Benavides to the Jesuits murder.

It is now May 1, Mr. Secretary, and I have yet to receive a response from the State Department. Do you have the answers to my questions?

If not, can you provide me the answers to those questions within the week?

SECRETARY BAKER: I understand that the information you requested from Assistant Secretary Aronson on February 8 was provided to the subcommittee, with the edited transcript of the hearings, on February 16.

What we told you was that during the FMLN offensive the military high command met on a continuous basis. As was the case throughout the offensive, we believe that key members of the high command were present at the high command on November 15 and could have attended such a meeting. We do not have a list of those officers who attended that meeting. However, based on statements made by some participants, we believe the following individuals were at this meeting: Chief of Staff Col. Rene Emilio Ponce, then Air Force Commander Gen. Rafael Bustillo, Vice Minister of Defense Col. Juan Orlando Zepeda, then Director of the Treasury Police Col. Hector Heriberto Hernandez, then Director of the Military Academy Col. Guillermo Alfredo Benavides, and Armed Forces Press Committee spokesman Maj. Mauricio Chavez Caceres. In addition, it is likely that the Minister of Defense, the Vice Minister of Defense for Public Security, the Directors of the National Police and National Guard, and others were at this meeting, although we cannot confirm this.

The only attendee at this meeting to have been polygraphed is Col. Hernandez, who was ordered to take the test in connection with charges made in a letter

allegedly written by young military officers that he was the intellectual author of the killings. The results of Col. Hernandez' polygraph supported his claims of innocence. The polygraph was conducted by the Special Investigative Unit (SIU) and subject to quality control by the FBI.

In addition, Col. Ponce on January 4 gave a sworn deposition to the San Salvador fourth criminal court which included the disposition of military forces around the Central American University the night of the murders.

The judge has not yet directed the SIU to investigate the November 15 meeting. He has, however, summoned the members of the military honor board, which earlier had reviewed the evidence and concluded that there was sufficient reason to charge Col. Benavides and the other defendents with the crime. It is likely that some of the honor board members also attended the November 15 meeting.

SENATOR HARKIN: Mr. Secretary, it has been reported that Colonel Benavides now enjoys the most unusual kind of "house arrest." It is my understanding that Col. Benavides, while under house arrest, has been seen "frolicking in a private hotel off the coast (of El Salvador) with no supervision or anything" -- to quote Rep. Joe Moakley.

It has also been reported that, Mr. Secretary, you personally have expressed U.S. displeasure about Benavides' accommodations to Salvadoran President Cristiani.

Mr. Secretary, are you aware of the unusual treatment of Col. Benavides? Is it true that Benavides' house arrest allows him to "frolick" on the beaches of El Salvador?

SECRETARY BAKER: There were unconfirmed press reports that Col. Benavides had a separate apartment at police headquarters and that he had been seen one weekend at the beach. We of course object to any special treatment for Col. Benavides and I called President Cristiani to convey our protest. The Salvadorans later explained that Col. Benavides and the other accused are being kept apart from the general detainee population, which includes suspected FMLN guerrillas, for their own safety. The military has denied that Col. Benavides was permitted to visit the beach.

SENATOR HARKIN: What is the status of the case against Benavides? Several weeks ago, President Cristiani expressed his opinion that Benavides would ultimately "walk". Do you agree with President Cristiani's assessment of the disposition of Colonel Benavides?

SECRETARY BAKER: At this point the only evidence of Col. Benavides' complicity is the statements given by the other officers arrested with him. Under Salvadoran law, the testimony of co-defendants cannot be used

against someone. Therefore, the prosecution must develop other, admissible evidence against Col. Benavides. One strategy under consideration by the court is to drop the charges against one of the other officers so that his statement regarding Col. Benavides involvement in the killings could be used. I note that the case is still in the pre-trial, investigatory stage when questions such as these are being considered and additional evidence developed.

SENATOR HARKIN: One of the conclusions of the "Interim Report of the (House) Speaker's Task Force on El Salvador" -- the Moakley Task Force -- was, and I quote:

"The investigators made little effort to determine whether senior military officers other than Col. Benavides might have had a role in ordering, or in covering up, the crimes (murders of the Jesuits)."

The task force report goes on to say:

"The investigators have not questioned senior officials about a meeting of the Armed Forces High Command, at which Col. Benavides was present, on the night of the murders; they have not questioned them about other conversations they might have had with Col. Benavides shortly before, during or shortly after the night on which the murders were committed...and they have not questioned military officials about their possible involvement in withholding information or attempting to cover up the crime."

Congressman Moakley yesterday referred to this failure to determine who were the "intellectual authors" of the Jesuits murder the "greatest failure" in the investigation.

Mr. Secretary, do you agree with Cong. Moakley and the conclusion of the Interim Report that the investigation into the Jesuits murders has failed to examine senior officers other than Col. Benavides? What efforts has the U.S. made to press the Salvadorans to investigate senior officers who might have been involved in ordering or covering up the murders?

SECRETARY BAKER: We are certainly frustrated with the slow pace of proceedings in this pre-trial stage of the judicial process. There has been little effective effort to date to examine the question of involvement of other officers in either the planning or any possible cover up of the crime. We have made all the appropriate parties in El Salvador aware of our frustration, including President Cristiani, the military high command, the Attorney General and other judicial officials, and the judge trying the case. I am hopeful that the judge's recent summoning of the members of the military honor board and of the cadets on duty at the high command motor pool the night of November 15 are part of a renewed commitment to vigorously prosecute this case. We also expect the military to fulfill their public and private pledges of full cooperation with the investigation and expeditiously respond to the judge's requests.

SENATOR HARKIN: Once again, can you or your department provide me a list of those Salvadoran officers who attended a meeting on the night of November 15? And can you explain to me why those who attended that November 15 meeting were not subject to lie detector tests?

SECRETARY BAKER: As I mentioned in my response to your earlier question, we provided the subcommittee those names on February 16 and the names of those identified are repeated in my answer to that earlier question. Once the judge directs the SIU to investigate the November 15 meeting, the SIU may decide to administer polygraph tests to the participants in the meeting as part of its inquiry. The SIU had not investigated this meeting earlier because nothing in Col. Hernandez' polygraph results nor in Col. Ponce's statement indicated that the killings were discussed or ordered at the November 15 meeting.

NEGOTIATIONS IN EL SALVADOR

SENATOR HARKIN: Mr. Secretary, now that democracy and peace may come to Nicaragua, I think it's time that we work to bring stability and peace to neighboring El Salvador.

In Nicaragua, all inclusive elections, which brought into the process former contras as well as the unarmed opposition, became the vehicle national reconciliation, and we hope, the end of 10-years of war.

Why can't we apply that model to El Salvador? Next March, legislative and local elections are scheduled in El Salvador. It seems to me that these legislative elections could provide the same vehicle for reconciliation that this February's presidential elections did for Nicaragua.

SECRETARY BAKER: Our assistance to the democratically elected government of El Salvador is designed to advance democracy while supporting human rights and the rule of law. Much has been achieved over the last ten years. There have been six free and fair elections. The human rights situation has improved dramatically. Necessary societal reforms have been undertaken.

Much remains to be done, however. The violence must end in order for the democratization process and reforms to be further advanced. Neither side can win a military victory. A negotiated political solution, including a cease-fire, the demobilization of the FMLN, and its reintegration into the established electoral system, is necessary to solve the conflict.

The government and the guerrillas have embarked on talks to achieve such a political solution. We fully support this peace process.

SENATOR HARKIN: However, the time is short to establish the conditions necessary to ensure that all parties, including the FMLN and the Convergencia (Zamora and Ungo's group), participate in next March's elections. In light of the November 16 assassination of

6 Jesuits, I doubt whether the safety of those members of the FMLN who desire to participate in campaigning could be assured, for example.

But these conditions must first be negotiated, and the time is running out to set these mechanisms in place.

Mr. Secretary, I am encouraged by the fact that the warring parties, the Salvadoran government and the FMLN, have agreed to negotiations conducted under the auspices of the United Nations Secretary-General.

Mr. Secretary, what are the status of those negotiations? What is the timetable for these negotiations?

SECRETARY BAKER: The UN, the government and the guerrillas announced on April 3 that the two sides would commence negotiations aimed at ending the violence and reintegrating the FMLN into the democratic system. The two sides began meeting under U.N. auspices on May 16 in Venezuela.

The talks are intended to be continuous and uninterrupted, although we anticipate that the sides and the UN will agree to breaks in the process. We do not know if the UN has suggested a timetable for achieving agreement on the issues.

We fully support this peace process. It represents the best opportunity in years to end definitively the conflict.

SENATOR HARKIN: Do you foresee that the subject of conditions regarding the conduct of next March's elections will be agreed to in sufficient time to allow the fullest participation in those elections?

SECRETARY BAKER: Any answer to this question would be speculation. We hope that agreement on a cessation of hostilities and reintegration of the FMLN into the democratic process can be achieved as soon as possible.

SENATOR HARKIN: Mr. Secretary, would you accept a proposal to help finance international observer teams to monitor next March's elections, teams similar to those that operated during the election process and actual voting in Nicaragua?

SECRETARY BAKER: As in Nicaragua, at the request of the government, we would be interested in supporting voter awareness efforts, and in encouraging a voter registration project. We continue to favor observation of the electoral process by as many groups and over as long a time frame as possible.

As important as these steps can be, the key to increasing voter participation in El Salvador is to end the violence. The talks in Venezuela between the Salvadoran government and the guerrillas which began on May 16 offer the best chance in years to end the war. We hope that the Venezuela talks will achieve an end to the violence and a political solution to the conflict.

SENATOR HARKIN: What message has the State Department, the Administration and the U.S. Embassy in San Salvador sent to the Salvadoran military urging them

to support the efforts of President Cristiani to agree to a negotiated resolution of the civil war?

SECRETARY BAKER: Our message to the Salvadoran military, the Salvadoran government, the FMLN, and any other interested parties has been clear: neither side in the Salvadoran conflict is capable of defeating the other militarily. The violence must end in order for the democratization process and societal reforms to be further advanced. Only a negotiated political solution to achieve a cease-fire, the demobilization of the FMLN, and its reintegration into the established electoral system, can resolve the conflict. We fully support the peace talks now underway in Venezuela.

SENATOR HARKIN: Mr. Secretary, let me make another point concerning these elections. These elections should be as open as possible, as free as possible, and as many Salvadorans as possible should vote in them.

In the March 1989 presidential election, less than one million people voted. El Salvador has a population of nearly 6 million people.

In the recent presidential elections in Nicaragua, 1.6 million people voted. Nicaragua has a population of only 3 million.

I have not seen the exact figures, but it is my understanding that at least 2.5 million people are eligible to vote in El Salvador. Yet, it is also my understanding that less than 2 million people have actually registered.

Mr. Secretary, would the U.S. Government be prepared to support efforts to ensure that the largest number of Salvadorans possible register so they may vote in next March's election. Shouldn't it?

I know that the USG has supported registration drives in Chile and Nicaragua. Are we prepared to support and aid similar efforts in El Salvador?

SECRETARY BAKER: About 1 million Salvadorans voted in the March 1989 election, or about 54% of the nearly 2 million registered voters; El Salvador's population is approximately 5.2 million. In February, 1.6 million Nicaraguans voted, or about 87% of the 1.7 million registered voters; Nicaragua's population is approximately 3.5 million. I would also note that the voting age in Nicaragua is 16, while in El Salvador the voting age is 18.

FMLN violence explains in large part why "only" 54% of registered Salvadorans voted compared to 87% of Nicaraguans. In the months prior to the 1989 presidential election, the FMLN threatened electoral officials, including voter registrars, and elected officials, including mayors, with death. The FMLN threatened 214 of the 262 mayors in El Salvador; more than 90 resigned rather than submit to "revolutionary justice." FMLN death squads killed 12 for failing to resign.

The guerrillas warned citizens not to participate in the elections, and declared a traffic stoppage for election day. On polling day, the FMLN unleashed a

nationwide wave of violence in which more than 50 people were killed. The guerrillas burned dozens of buses and trucks carrying voters to the polls. Under the circumstances, it is remarkable that as many as one million Salvadorans were able to cast their ballots.

Each of the six national elections held since 1982 has been observed by dozens of observer teams from governments (including the USG and the governments of Britain, Canada, and Spain) and private groups. Each of those groups found each of the elections to have been conducted freely and fairly.

We are in favor of continuing the process of democratization in El Salvador, including by increasing voter participation. The best way of accomplishing this would be for the FMLN to cease its violent attacks on the electoral process and those individuals -- registrars, elected officials, and ordinary voters -- who make democracy work in El Salvador.

As in Nicaragua, at the request of the government, we would be interested in supporting voter awareness efforts, and in encouraging a voter registration project. We continue to favor observation of the electoral process by as many groups and over as long a time frame as possible.

As important as these steps can be, the key to increasing voter participation in El Salvador is to end the violence. The ongoing U.N.-brokered talks in Venezuela between the Salvadoran government and the guerrillas offer the best chance in years to end the war. We hope that the Venezuela talks will achieve an end to the violence and a political solution to the conflict.

QUESTIONS SUBMITTED BY SENATOR ROBERT KASTEN

PLO RENUNCIATION OF TERRORISM

SENATOR KASTEN: The next State Department report regarding the PLO's compliance with its renunication of terrorism is due out in July. I would briefly like to go over some of the criteria used in the last report, and ask whether the same criteria will be used in the upcoming report. In evaluating the attacks against Israel, the State Department concluded that nine involved constituent groups of the PLO. Which Palestinian groups do you consider to be part of the "loosely structured organization" known as the PLO? In other words, on whose behalf did Arafat undertake the commitments of December 1988?

SECRETARY BAKER: In December, 1988, Yasser Arafat, speaking on behalf of the PLO, accepted longstanding American conditions for beginning a dialogue. We consider groups belonging to the PLO as those who are represented on the PLO Executive Committee, which also includes independent members. The groups represented include:

- Fatah
- Popular Front for the Liberation of Palestine (PFLP)
- Democratic Front for the Liberation of Palestine (DFLP)
- Palestine Liberation Front (PLF) Abu Abbas faction
- Palestine Communist Party (PCP)
- Arab Liberation Front (ALF)

SENATOR KASTEN: On what criteria do you base your conclusions that only these groups are part of the PLO? What standard is used in evaluating whether particular actions are, in the words of the last report, "authorized or approved by the PLO Executive Council or by Arafat personally?"

SECRETARY BAKER: Groups that are represented on the Executive Committee -- and therefore participate in making major PLO decisions -- are considered by the PLO to be full members in good standing. Representatives from those groups are selected on the basis of the groups' relative strengths so that Fatah has three, each of the other factions has one, and the remaining seven are independents. Some of these groups are not unified and are headquartered in Syria, whose government opposes Arafat's policies. While the individuals who represent these groups on the Executive Committee are generally responsive to Arafat, the representatives who are based in Damascus or elsewhere and who directly control the fighters are often less responsive.

SENATOR KASTEN: By employing such stringent standards in evaluating the PLO, are you not really bending over backward to show that they have adhered to their commitments?

SECRETARY BAKER: No. The standards are appropriate and consistently applied.

ENVIRONMENTAL NEGOTIATIONS WITH ALLIES

SENATOR KASTEN: One of the provisions of the Foreign Operations language adopted last year is a requirement that the State Department negotiate with other nations to support the kind of environmental reforms the U.S. has supported at the multilateral development banks and the IMF. What specific actions has the State Department taken to help bring other nations into the fold -- to support changes at these institutions to protect the environmental resources of developing countries?

SECRETARY BAKER: The Department of State works in close coordination with Treasury, A.I.D. and EPA to promote change in these institutions. We addressed the issue of environmental reform in a variety of fora: among others, at the annual meetings of the multilateral development banks, at the Development Committee meeting, in the OECD Development Assistance Committee, at the G-7 economic summit and at the UN General Assembly. Other Executive Directors of the multilateral development banks now regularly raise environmental concerns in Board

meetings, and object if environmental safeguards appear lacking. While the record is still uneven, we believe we are seeing fewer problem loans. We agree that considerable ground remains to be covered, and we intend to continue to press other donors and the institutions themselves.

EASTERN EUROPE AND THE ENVIRONMENT

SENATOR KASTEN: In the past year, we have seen remarkable changes in Eastern Europe. As excited as we are about the emerging democracies there, however, those nations have astounding environmental problems which impact us as well, not just on the people of those nations. What programs do we have in place to promote environmental exchange and environmental management in Eastern Europe?

SECRETARY BAKER: As part of the President's initiative for environmental assistance to Eastern Europe, the Administration's plans include the funding of environmental projects in fiscal year 1991 consistent with the $40 million three-year authorization under the 1989 Support for Eastern Europe Democracy (SEED) Act which authorizes assistance to Hungary and Poland. Our project to establish the Regional Environmental Center in Budapest is part of this effort.

The Regional Environmental Center for Central and Eastern Europe is intended to be an independent, non-advocacy, non-profit organization which seeks to address the environmental challenges common to Central and Eastern Europe. These challenges include severe air, water and soil pollution, inefficient use of energy, an outmoded industrial base, health problems resulting from environmental degradation, and a shortage of technical and managerial expertise on environmental issues.

As currently envisioned, the Center's mission will focus on four major themes -- collection and dissemination of environmental information; development of institutional capability to promote environmentally sound policies, especially as the nations of the region move from state-controlled to more market-oriented economies; environmental education, training and technical assistance; and a clearinghouse function for linking needs with resources. The Center is intended to facilitate and support collaborative environmental activities among individuals and organizations that develop or implement solutions to environmental problems in the region. We anticipate that the Center will open by late summer 1990.

The Administration is moving rapidly to implement other environmental objectives of the SEED Act as well, in addition to the Regional Environmental Center. The Environmental Protection Agency (EPA) is currently consulting with the Poles to transfer and set up the equipment for an air monitoring network and for improved water quality in Krakow. EPA's clean air strategy for Krakow calls for setting up a minimum of six air monitoring stations in the city, and providing training for technical personnel responsible for operating the

equipment. In addition, the Department of Energy (DOE) recently signed an agreement with the Poles to retrofit an existing coal-fired power plant in the city of Krakow with U.S. clean coal technology and to jointly conduct an analysis to define specific activities for an equipment assessment project. DOE and Polish officials have agreed that the activities defined will address low stack pollution in Krakow.

DOE is also planning a series of energy conservation seminars to be held in three major citites in Poland this summer. Key officials and plant managers will be invited to these seminars which will focus on some of the U.S. energy conservation programs and technologies. If these seminars are successful, they may be repeated in other East European countries. Although these seminars are not being carried out under the SEED Act, they should aid us in our SEED objectives.

Finally, the Administration has also established the International Environmental Technology Transfer Advisory Board (IETTAB), a high-level advisory committee chaired by William Ruckelshaus. The purpose of the Board is to advise the Administration on the feasibility of transferring environmental technology to developing countries and Eastern Europe. The IETTAB will have specific recommendations by Fall 1990. Like the DOE seminars noted above, although this initiative is not being carried out under the SEED Act, recommendations of the Board should aid us in our SEED objectives.

SENATOR KASTEN: In the past year, we have seen remarkable changes in Eastern Europe. As excited as we are about the emerging democracies there, however, those nations have astounding environmental problems which impact us as well, not just on the people of those nations. Those environmental problems place real restraints on the economic activities of those nations as well on the health of their citizens. What do you think should be our top priorities in promoting environmental protection in Eastern Europe?

SECRETARY BAKER: We are currently coordinating with the Environmental Protection Agency (EPA), Department of Energy (DOE), the Agency for International Development (AID), and other relevant federal agencies, as well as with non-governmental organizations and the private sector, to compile a comprehensive assessment of environmental needs and priorities for Central-Eastern Europe. As we continue consultations with the various countries of the region, we expect to gain a better understanding of more specific environmental needs of these countries.

Our strategy calls for focusing on technical assistance, training, and limited demonstration projects and using a regional approach to U.S. assistance with some country-specific initiatives. We plan to use the Regional Environmental Center in Budapest, for example, in promoting regional environmental planning and to supplement/complement these efforts through bilateral and multilateral efforts. In doing so, we will take into

account assistance provided by other governments and multilateral organizations.

HELPING THE SOVIET ECONOMY

SENATOR KASTEN: I am becoming increasingly concerned about reports we are hearing on the Soviet economy and the likelihood of success for Mr. Gorbachev. Secretary of Defense Cheney clearly remains very concerned about Secretary Gorbachev's future. And yesterday I saw that even Pravda has now begun to point out that the Soviet economic reform experiment seems to be a failure.

We seem to be running pell mell toward a European Bank for Reconstruction and Development, and we are giving all kinds of signals to the Soviet leader of how we support his efforts. At the same time, many of us here remain concerned about policy issues that might affect the Congress' willingness, at least, to provide such benefits as most favored nation status to the Soviet Union.

How do we intend to deal with the ongoing crisis in the Soviet economy? Certainly there are not enough funds in the entire U.S. budget for us to rescue the Soviet Union. How will we address this problem?

SECRETARY BAKER: Dealing with the economic crisis in the USSR will require a profound restructuring of the Soviet economy. This is a long, difficult process, and the Soviets will have to undertake the lion's share of it themselves. No amount of outside assistance can substitute for this.

This said, there are certain actions that the U.S. can take -- and has been taking -- to support the reform process in the USSR. These include our ongoing efforts to eliminate barriers to trade and investment with the USSR. As you know, since Malta we have been engaged in negotiations with the USSR of a commercial agreement, a bilateral investment treaty and a tax treaty. When these agreements are concluded we hope to see some expansion in mutually-beneficial economic links.

In addition, at Malta, the President proposed a list of technical economic cooperation projects. These projects are designed to share U.S. experience and expertise in building the economic institutions that will be necessary for a successful Soviet transition to a market-oriented system. We have ongoing projects in a number of areas, including statistics, small business creation, financial markets and banking.

THE BALTIC STATES

SENATOR KASTEN: Mr. Secretary, the Administration's response to changes in Eastern Europe has been strong and creative. We are providing economic assistance to Poland and the other Eastern European countries. We have supported elections throughout the region, and are working to ensure a calm reunification of the two Germanies. We have worked very positively in maintaining the NATO alliance, a key to stability in Europe.

In contrast, Mr. Secretary, we have done virtually nothing in regard to the Baltic states. What is the

difference, Mr. Secretary? We have supported independence in the Baltic states for many years, and yet when Lithuania declares independence, the President takes many weeks to make the firm determination to do nothing.

You may remember that last year I put forward an amendment restating the Senate's concerns over Soviet domination of the Baltic states. I would have expected a far stronger response than we have seen. Perhaps you can explain our complete inaction.

THE SECRETARY: For 50 years the United States Government has, with strong bipartisan support, refused to recognize the forcible incorporation of the Baltic states into the USSR. The President remains firmly committed to that policy and supports the strivings of the Baltic peoples for self-determination.

I cannot agree with your characterization that the Administration has done nothing to support Lithuania in the past several months. To the contrary, President Bush has encouraged President Gorbachev to start immediately a systematic dialogue with Lithuania. In the past few months, I have written to Foreign Minister Shevardnadze and have spoken to him and President Gorbachev face-to-face to make the same point. President Bush will communicate our views directly to Lithuanian Prime Minister Prunskiene and I will be taking it up with the Foreign Minister in Moscow later this month. (Subsequently, the Secretary met with Prime Minister Prunskiene in Moscow on May 18, the day after she met with President Gorbachev.)

When President Bush greets Mr. Gorbachev here on May 31, the Baltics will be a top priority on his agenda.

As the Lithuanians themselves recognize, reordering their relationship with Moscow is a complex undertaking that will have to be the result of a negotiated process. We continue to believe a systematic dialogue is the only path to genuine Lithuanian self-determination and independence. We remain sympathetic to the aspirations of the Lithuanian people.

Keeping in mind our long-term interests, values, and commitments, we will continue our efforts to bring about a systematic dialogue between the Lithuanians and Soviets.

EL SALVADOR - NEGOTIATIONS

SENATOR KASTEN: To my mind, one of the most important changes of this last year has been the sight of Daniel Ortega slipping the presidential sash over the shoulders of Mrs. Chamorro in Nicaragua. After many years of struggle against the Sandinista dictatorship democracy has finally come to that country.

I would ask you to accept my congratulations to you on behalf of all the Reagan-Bush officials who worked so hard to bring us to this point. I would also like to congratulate you personally on your efforts in negotiating solutions with Congress, and in shepherding through the election process in Nicaragua.

We now need to shepherd through a similar situation in El Salvador where a separate war continues. What is the status of the ongoing negotiations in El Salvador?

SECRETARY BAKER: The Salvadoran Government and the FMLN had agreed to UN facilitation of peace talks and met in Caracas from May 16 to May 21, under UN auspices, for the first round. Both parties gave indications of a commitment to reaching a negotiated end to the war. They agreed on an agenda which includes changes in the Salvadoran armed forces, human rights, the judicial system, and the electoral system, among other items. The time table they agreed on posits a possible cease-fire by September 1990. The second round of talks will be held next month.

We are encouraged by the progress made. It will not be easy for either side in the conflict to put aside ten years of violent, bloody fighting that in a country as small as El Salvador has affected virtually every Salvadoran family. We continue to support the effort to reach a negotiated end to the war and the UN's role in this regard.

SENATOR KASTEN: What support do you need from the Congress to bring this country toward a similar settlement and an end to its war? How can we help move that process forward?

SECRETARY BAKER: The bipartisan approach the Congress and the Administration developed on Nicaragua permitted us to successfully assist the Nicaraguan people in achieving a democratically elected government and an end to the fighting. We are ready and more than willing to reach a similar consensus with the Congress on El Salvador that will assist that country's democratically elected president in ending ten years of violence and bloodshed.

THE EFFECT OF EASTERN EUROPE ON THE REST OF THE FOR. OPS. BILL

Senator Kasten: Mr. Secretary, we would all agree I think that the changes in Eastern Europe in the last year are the most important and profound which have occurred anywhere in many years. Indeed, it has seemed that we, like the rest of the world, are constantly running to keep up with the changes. I look forward to the time when we can all sit back and take a breather, but in the meantime, we have work to do.

This subcommittee must look ahead to drafting an FY 1991 Foreign Aid Appropriations Bill. I am somewhat concerned about what impact the changes of the last year will have on our bill, and would like to hear your comments, particularly on the security assistance portion of the bill. The East German elections came after your budget was submitted -- what impact does that have, for example?

Question: How has the last six months affected our proposals, or the Administration's aspirations for the developing world?

SECRETARY BAKER: I share your satisfaction with the encouraging developments since last fall in Eastern Europe. The progress has been truly dramatic. Democracy has triumphed in many areas, but the process is not complete, and much remains to be done to further develop democratic processes and institutions. These countries also face formidable tasks in restructuring their economies to promote free markets and private enterprise. We will do our share to help the new democracies directly, and by working with our friends and allies on multilateral aid efforts.

We also should remember that the democratic revolution sweeping Eastern Europe is largely the result of the United States' commitment over the past forty years to working with our NATO allies to maintain a credible deterrent to aggression and to foster peaceful democratic evolution. It is especially important to stand by our friends while questions regarding the future security architecture of Europe remain undecided. A strong NATO remains a key element in the preservation of Western security and promotion of a peaceful and orderly transformation of Europe.

The emergence of democratic governments in Panama and Nicaragua also hold great promise for the future. The Administration earlier this year proposed a special assistance package for these two countries. We are pleased that the Congress has now passed that supplemental appropriation. We hope the other countries in the region make progress towards peace, and further develop their democratic institutions and processes, and free market oriented economies. We will be helping them move ahead. We encourage our friends in Europe and Asia to help as well.

However, similar dramatic progress has not been made everywhere in the world. Many of our friends and allies still confront serious threats from regional tensions, terrorism and narcotics trafficking. Our friends and allies in the Middle East and elsewhere still have legitimate defense needs, and need our help to fulfill them. We must continue to assist our friends in dealing with these and other challenges by providing security assistance.

Our goals remain the same as they were forty years ago: to create a peaceful, stable international order, and to promote democracy and free market economies abroad. These objectives are as valid today as they were at the height of the Cold War, and are not limited to Europe, nor to the Americas. We hope that, over time, democracy and free enterprise will not only take root, but develop in all of their potential throughout the world.

We cannot make this possible by ourselves, nor with security assistance alone. Development Assistance and PL-480 play key roles. Other countries must do their share, and that means other donors must do more both directly and through multilateral

efforts. It also means that the recipient countries must give more attention to appropriate policies to foster sustainable economic growth and development. But security assistance remains essential to prevent aggression so that further political and economic development can occur.

We will be taking a very careful look at how the FY92 budget can be structured to continue meeting international responsibilities and furthering our national interests in today's rapidly changing world.

CAMBODIA

SENATOR KASTEN: At the same time we have watched progress on democracy throughout Europe and the western hemisphere, we have been faced with continuing deadlock in Cambodia. And the situation appears to be getting no better.

Just this weekend, we saw press reports on continuing Khmer Rouge suppression of human rights in so-called "closed" refugee camps that it has inside Cambodia. Apparently, there are no violations in the few "open" Khmer Rouge camps, but in the closed camps the Khmer Rouge remain as murderous as ever.

What progress is being made in reaching a solution to the ongoing crisis in Cambodia?

SECRETARY BAKER: Our current policy on Cambodia is focused on an effort by the Permanent five members of the Security Council to reach a consensus on a comprehensive settlement structure involving a major role for the United Nations. In the first three sessions of the consultations substantial progress was made on various elements of a settlement including agreement on a major UN role involving directly administering elections, a peacekeeping function and a role in the transitional administration.

The two major remaining issues, which the five must address, concern disposition of the factional forces and the precise nature of the UN authority in a transitional administration. We hope that our efforts, along with those undertaken by the countries in the region, will allow for a reconvening of the Paris Conference on Cambodia to complete a settlement and finally bring peace to the long-suffering Cambodian people.

SENATOR KASTEN: How can we assure that the Khmer Rouge does not return to power to run roughshod over the Cambodian people?

SECRETARY BAKER: A major objective of our Cambodian policy is to assure that the murderous Khmer Rouge never return to power in Cambodia. We believe that the best way to contain the Khmer Rouge is through a comprehensive settlement which includes a major role for the UN and which guarantees a process of genuine self-determination for the Cambodian people through free and fair elections.

PLO BID FOR MEMBERSHIP IN WHO

SENATOR KASTEN: The PLO has once again renewed its efforts to obtain full membership as a state in the World Health Organization. Last year the Administration vigorously opposed these efforts,

threatening to withhold U.S. funding for WHO, should the PLO succeed. Will the Administration actively oppose the PLO's most recent attempt at obtaining membership in WHO?

SECRETARY BAKER: Largely due to United States efforts, the World Health Assembly adopted without a vote a resolution which postpones sine die the PLO's bid for membership as "Palestine." The United States strongly opposed the PLO's application because of serious legal and practical concerns. Our delegation worked diligently to ensure that the PLO did not obtain membership. The self-proclaimed "state of Palestine" does not meet the internationally accepted criteria for statehood. Therefore, it is not eligible for membership in WHO, an organization whose constitution permits membership only to states.

SENATOR KASTEN: Specifically, is the Administration still committed to pulling the U.S. out of WHO and withdrawing funding, should the PLO succeed?

SECRETARY BAKER: In negotiations, the delegation stressed that two separate provisions of U.S. law call for a cutoff of both assessed and voluntary contributions to any UN-affiliated organization that admits the PLO to membership.

SENATOR KASTEN: How do you view the PLO's decision to go forward with this matter?

SECRETARY BAKER: The membership application presented major legal obstacles from the outset, as I stated above. The self-proclaimed "state of Palestine" does not meet the internationally accepted criteria for statehood. Therefore, it is not eligible for membership in WHO, an organization whose constitution permits membership only to states.

SENATOR KASTEN: Do you expect the PLO to mount another major campaign throughout the UN system to gain membership as a state?

SECRETARY BAKER: The US continues to vigorously oppose any such effort to enhance the status of the self-declared "state of Palestine." There is also Congressional legislation calling for a cutoff of funds to any UN organization that admits the PLO as a member state. The PLO does not possess the generally accepted criteria for statehood and therefore is not eligible for membership as a state in any UN organization.

SENATOR KASTEN: Will the U.S. attempt to repeal U.N. Resolution 3379, the so-called "Zionism is Racism" resolution?

SECRETARY BAKER: The U.S. wants to see this odious resolution repealed as soon as possible.

ASSISTANCE TO AFRICA

SENATOR KASTEN: I am concerned about the Administration's seeming lack of interest in Africa, and in aid to Africa. Other than your recent visit to South Africa, this Administration has shown little concern for that continent.

I look at this year's foreign aid request, and I see that there is little that is new for Africa. Perhaps the most important new funding efforts for Africa are in the supplemental appropriations bill in the Namibia earmark, a Congressional initiative.

It is my understanding that Soviet Foreign Minister Schevarnadze toured throughout Africa on his way back to the Soviet Union, but that your visit was comparatively short and confined to Southern Africa. While such a comparison is only anecdotal, it reflects to me a certain lack of interest and concern.

I recognize that there are dramatic changes going on around the world, but regardless of the political situation in Africa, people there are still starving, people need health care, economies badly need our help. Can't we show a little more creativity and a little more generosity on aid to Africa?

SECRETARY BAKER: Although momentous developments are occurring elsewhere, such as in Eastern Europe, the President has said that we will not forget our African friends. I have said many times that I do not want what we do to meet new demands in Eastern Europe to be at the expense of Africa. I think that is demonstrated by the fact that our request levels for African development assistance are holding steady, while they are going down in other regions. Development Fund for Africa (DFA) funding available to support long-term growth and social progress in sub-Saharan Africa will be higher in FY 1991 than total DFA in FY 1990 if Congress approves our request to increase International Disaster Assistance funding from $25 million in FYs 1989 and 1990 to $40 million for FY 1991. If that request is approved, no special disaster reserve would be set up under the DFA next year, and the net amount available for long-term development would increase 2.5 percent (see table below).

DFA Appropriations: FY 1989-91
(In millions of dollars)

	FY 1989 Actual	FY 1990 Actual	FY 1991 Request
Total	550.0	561.8	560.5
Compared with FY 1989		+2.1%	+1.9%
Disaster Reserve	NA	15.0	-----
Net of Disaster Reserve		546.8	560.5
Net Compared with FY 1990	NA	NA	+2.5%

Allocations under the DFA will continue to respond to the performance of the African countries themselves in undertaking and maintaining economic policy reforms and in restructuring their economies to compete better in world markets. Management of the DFA focuses on maximizing its contribution to long-term sustainable growth and development. The US also makes available to African countries considerable resources through our funding of multilateral organizations, such as the International Monetary

Fund, the World Bank, the African Development Bank, and UNDP. For example, the Administration has recently committed an annual contribution of $1.06 billion to IDA (International Development Association) IX, approximately a $100 million increase over our annual contribution to the predecessor IDA VIII. Approximately half of IDA funding is earmarked for Sub-Saharan African countries. In addition, starting last year, under Section 572 of the Foreign Assistance Act, sub-Saharan countries with either a World Bank or IMF structural adjustment program are eligible for forgiveness of development assistance debt owed the United States. So far, fourteen countries have benefitted by forgiveness of $850 million in such debt, and another eight are potentially eligible for a total of $550 million in additional debt forgiveness.

WESTERN SAHARA

SENATOR KASTEN: Mr. Secretary, the conflict in the Western Sahara has dragged on for years now, and it finally seems that it is virtually over -- Morocco has military control of the territory, Algeria has slowed if not stopped its enormous military aid to the Polisario, and the Polisario guerrillas are ready to give in. The only obstacle to a political resolution to this problem seems to be funds to pay for a referendum on the Sahara issue.

Mr. Secretary, can you confirm my understanding of the current situation?

THE SECRETARY: Because the Secretariat has not completed its planning for a referendum in the Western Sahara we do not know how much this operation will cost and therefore cannot determine whether cost will be an obstacle. We believe that considerable progress has been made in obtaining agreement among all the involved parties for a political solution involving a referendum, but it is premature to state that the conflict is virtually over. We would note that the generally low level of fighting since King Hassan met with Polisario representatives in January 1989 was broken by four heavy, unexpected attacks in October and November of last year. Furthermore, while all parties have been talking to the UNSYG about a referendum, none of the parties has given its final consent to detailed arrangements or modalities.

The Secretary General of the UN and his Special Representative for the Western Sahara, Johannes Manz, are working to resolve the remaining outstanding issues. We fully support the Secretary General's efforts.

SENATOR KASTEN: Assuming it is a funding problem, what can we do to push the UN to make this a higher priority?

THE SECRETARY: Seeking a settlement to the Western Sahara conflict is a high priority for the UN and I am certain the UN will do everything it can to achieve a settlement. Consultations between the

Secretary General and the permanent members of the Security Council on his proposals for the Western Sahara are about to begin. When we see his plans in detail we will have a better idea as to the funds and the resources that will be required. As you know, Senator, we would have more influence in these matters if we were paying our peacekeeping assesments.

SENATOR KASTEN: If the UN cannot do that, is there another way to fund a referendum over the Sahara?

THE SECRETARY: We do not anticipate an insoluble funding problem in the UN.

SAUDI ARABIA: COMPUTER

SENATOR KASTEN: Are there any indications that Iraq has access to Saudi Arabia's Cray Computer? It is my understanding that this computer is an invaluable tool for the development of nuclear weaponry. Is the Administration concerned that American technology transferred to Saudi Arabia may be used for nuclear development by other Arab nations?

SECRETARY BAKER: There is no indication that Iraq has access to the computer, which was sold to Saudi Aramco. Aramco uses a limited number of specialized and complex seismic programs. Any deviation from these programs would come immediately to the attention of Cray technicians who are on site at all times to assist in the operation of the computer. The U.S. personnel would take appropriate action to deal with unauthorized use. The computer includes other built-in security systems.

SENATOR KASTEN: What controls can the U.S. put on the use of such sophisticated equipment? Also, what is the status of the Israeli universities' request to purchase the Cray?

SECRETARY BAKER: Supercomputer exports are approved after inter-agency review only when we are convinced that there will not be any diversion of the supercomputer to an unauthorized use. The recipient country must provide assurances on the use of the supercomputer. We also require a safeguards plan to ensure that the computer is not diverted to improper use.

The Israeli universities' requests to purchase supercomputers are still under review. The inter-agency process has not yet reached a consensus on the Israeli license applications.

U.S. INADVERTENT SUPPORT FOR IRAQ

SENATOR KASTEN: The U.S. provides Iraq with a number of agricultural and Ex-Im Bank credits. By providing these credits, the U.S. is in effect enabling Iraq to use its hard currency for other purposes, thus facilitating Iraq's development of chemical and nuclear weaponry. Do you believe it is

prudent for the U.S. to continue providing Iraq with these credits?

SECRETARY BAKER: The United States does not provide credits to Iraq. Both the Commodity Credit Corporation and Exim have credit insurance programs. The actual financing must come from commercial banks and is repayable in hard currency. The insurance helps Iraq get better interest rates. However, the real benefit is to U.S. exporters who otherwise would be severely disadvantaged -- effectively non-competitive -- against exporters from other countries who draw on their own pools of export subsidies and government-guaranteed credit. This year, CCC has made available to Iraq $500 million in credit guarantees for commodity purchases. Exim has a short-term rotating $200 million credit insurance facility for Iraq.

SENATOR KASTEN: In light of Hussein's recent words and actions, is it reasonable to put Iraq on a cash and carry basis with the U.S.?

SECRETARY BAKER: Insisting on cash-only sales would have no significant effect on Iraqi imports and would deliver the U.S. market share to European and Japanese competitors.

QUESTIONS SUBMITTED BY SENATOR ALFONSE D'AMATO

LITHUANIA

Q. SENATOR D'AMATO: Why, at the very time the Soviets are strangling the Lithuanians with an economic embargo, did the Administration choose to announce the conclusion of a trade agreement with the Soviet Union? How will this apparent rewarding of repression impact our image with other budding democracies?

SECRETARY BAKER: We have stressed, both to the Soviet authorities and to the Lithuanians, the need for a negotiated end to their current impasse. President Gorbachev's meeting with Prime Minister Prunskiene seems a very encouraging development. We hope that negotiations on the status of Lithuania may now be a real possibility. The situation remains very sensitive, however, and we are watching it carefully.

IRAQ

SENATOR D'AMATO: The Senate will consider an amendment to the supplemental that will impose economic sanctions against Iraq. Have you seen the amendment? What is your reaction?

SECRETARY BAKER: The bill you proposed, Senator D'Amato, along with Senators Mack and Wilson, would eliminate all U.S. export promotion programs with Iraq and impose certain other trade sanctions pending Iraq's ratification of the Convention on Biological Weapons and opening to inspection of all suspect sites. While the Administration shares these non-proliferation goals, we believe strongly that trade with Iraq, within the

limits of U.S. law, is in the long-term U.S. national interest, not to mention the interests of U.S. farmers and exporters. We therefore oppose any sweeping sanctions legislation at this time. The programs targetted by this legislation are designed primarily to aid U.S. exporters. Since there is no international support for sanctions against Iraq at this time, exporters from other countries, supported by their own export promotion programs, would quickly supplant U.S. firms that lost this financing in the Iraqi market. We have made known to the government of Iraq our concerns arising from recent Iraqi actions, and we are reviewing our policy in light of these events. We already prohibit export of goods that would support Iraq's military capability. Eventually, our review may lead us to conclude that it is necessary also to cut back or eliminate some of our export promotion in Iraq. We would then try to move carefully in order to minimize the negative effects for U.S. firms doing business there.

EL SALVADOR: JESUITS CASE

SENATOR D'AMATO: State Department officials are reported to endorse the conclusion of a House Democratic panel that the investigation into the murder of the 6 Jesuit priests has been brought to "a virtual standstill" by the unwillingness of the Salvadoran government to pursue the case. Are you one of the officials who agrees with the finding of the panel?

SECRETARY BAKER: We are certainly frustrated with the slow pace of proceedings in this pre-trial stage of the judicial process. There has been little effective effort to date to examine the question of involvement of other officers in either the planning or any possible cover up of the crime. We have made all the appropriate parties in El Salvador aware of our frustration, including President Cristiani, the military high command, the Attorney General and other judicial officials, and the judge trying the case. I am hopeful that the judge's recent summoning of the members of the military honor board and of the cadets on duty at the high command motor pool the night of November 15 are part of a renewed commitment to vigorously prosecute this case. We also expect the military to fulfill their public and private pledges of full cooperation with the investigation and expeditiously respond to the judge's requests.

We have also taken an extremely active role in monitoring the investigation and in identifying and suggesting possible leads to the Salvadorans. Our Embassy officials, recognizing the urgency of cooperation between the investigative team, the Special Investigative Unit (SIU), and the judge in charge of the case, have made every effort to facilitate this collaboration. The Embassy has also sought to alleviate whatever security concerns the judge may have by offering to arrange protection. In short, we have taken every possible measure to move the investigation forward toward prosecution.

SENATOR D'AMATO: If so, would you advocate the blocking of further aid to El Salvador?

SECRETARY BAKER: We have repeatedly emphasized to Salvadoran authorities that the handling of this case would affect our ability to provide assistance to El Salvador.

CAMBODIA

SENATOR D'AMATO: Considering the recent gains made on the battlefield by the Khmer Rouge-led Cambodia resistance, is it time to throw our weight behind the Hun Sen government? If not, why not?

SECRETARY BAKER: First of all, there has been no substantial change in the military balance over the past several months. Following the announced pull-out of Vietnamese combat units in September, both the Non-Communist Resistance forces and those of the Khmer Rouge made some gains in northwestern Cambodia along the Thai border. A counter-offensive by the Phnom Penh forces in February regained part of the territory occupied by the NCR. In recent weeks, the NCR has reestablished control over most of the territory that it had lost.

Although the Khmer Rouge is the strongest element militarily in the Cambodian resistance, it exerts no political leadership over the Non-Communist groups. Politically, opposition to the Vietnamese-supported Phnom Penh regime has been led by the Non-Communists, under the leadership of Prince Norodom Sihanouk. We believe that the Prince, a true Cambodian nationalist, has a key role to play in any lasting political settlement which would provide a real opportunity for the long-suffering Cambodian people to exercise genuine self-determination through free and fair elections.

Switching our support from Prince Sihanouk and the Non-Communists to Hun Sen would weaken the prospects of accomplishing one of our principal objectives in Cambodia, the prevention of a return to power of the Khmer Rouge. A decision by the United States to support the Hun Sen regime would probably preclude the achievement of the type of a comprehensive settlement which would provide concrete measures to contain the Khmer Rouge. The end result would likely be to relegate the decision in Cambodia to the battlefield, where the Khmer Rouge would ultimately benefit, a chilling prospect.

SENATOR D'AMATO: Are any punitive measures anticipated against the Chinese in the wake of revelations that the quantity and quality of arms shipments by the Chinese to the Khmer Rouge have increased as fighting has intensified in Cambodia?

SECRETARY BAKER: We have consistently pressed the Chinese to reduce the supply of arms to the Khmer Rouge and ultimately to stop altogether providing assistance to that murderous group. We cannot confirm that the quantity or quality of arms the Khmer Rouge

has been receiving has recently substantially increased.

Whether we like it or not, the Khmer Rouge is a factor in Cambodia, perhaps the strongest military force. The Chinese as the Khmer Rouge's sole political supporter and military supplier are the only outside party with significant influence over the group. If we wish to constrain the Khmer Rouge and assure that they do not return to power in Cambodia, we need to continue to work with the Chinese (and the other permanent members of the United Nations Security Council) to achieve an acceptable comprehensive settlement.

U.S. POLICY TOWARDS THE PHILIPPINES

SENATOR D'AMATO: In light of the recent coup attempt, and what appears to be a deteriorating relationship with the Aquino Government, is it time for the U.S. to re-evaluate its relationship with the Philippines? If not, why not?

SECRETARY BAKER: The U.S. Government continues to support unequivocally the democratically elected government of President Aquino. We condemned the December 1989 coup attempt in the strongest possible terms as a blatant attempt to grab power by a group of disgruntled rebels. Our relationship remains strong and is based on many factors including shared democratic and security interests and economic, cultural, and historical ties. The Philippines is a valued, close ally. It is not unusual for two allies to have occasional disagreements. It should not obscure the enduring, mutually beneficial relationship that exists between our two countries.

CYPRUS

SENATOR D'AMATO: A recent letter to the President from a group of Senators urged that Cyprus be elevated on the U.S. foreign policy agenda. What, if any, action has the President taken to do so?

SECRETARY BAKER: I want to confirm that the President and I recognize the Cyprus problem as a high priority issue on the U.S. foreign policy agenda. Our objective remains a settlement acceptable to the two communities on Cyprus, negotiated by them through the "good offices" mandate of the U.N. Secretary General. In this regard, we do not regard the status quo as acceptable, and we reject any form of partition or secession and have so made clear to all countries in the region.

Our most recent action in pursuit of the goal of a negotiated settlement is to send the U.S. Special Cyprus Coordinator, Ambassador Nelson Ledsky, to Greece, Turkey and Cyprus to assess firsthand the prospects for the U.N. to convene a further round of intercommunal negotiations in the months ahead, and to investigate how such talks might be scheduled and conducted.

SUBCOMMITTEE RECESS

Senator LEAHY. The subcommittee will stand in recess, subject to the call of the Chair.

[Whereupon, at 12:14 p.m., Tuesday, May 1, the subcommittee was recessed, to reconvene at 2:30 p.m., Monday, May 7.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

MONDAY, MAY 7, 1990

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:06 p.m., in room SD–138, Dirksen Senate Office Building, Hon. Patrick Leahy (chairman) presiding.

Present: Senators Leahy and Hatfield.

DEPARTMENT OF STATE

BUREAU OF REFUGEE PROGRAMS

STATEMENT OF HON. JEWEL LAFONTANT, AMBASSADOR-AT-LARGE AND U.S. COORDINATOR FOR REFUGEE AFFAIRS

ACCOMPANIED BY HON. PRINCETON N. LYMAN, DIRECTOR, BUREAU FOR REFUGEE PROGRAMS, DEPARTMENT OF STATE

OPENING REMARKS OF SENATOR LEAHY

Senator LEAHY. Good morning. The hearing will come to order. I want to welcome our first panel of witnesses. A special welcome to the distinguished senior Senator from Oregon, Senator Hatfield, whose interest in this area has probably been the longest lived and most consistent of any Member of the Senate. I am glad to have you here.

For our first panel of witnesses, we will have Ambassador Jewel LafFontant, U.S. Coordinator for Refugees, and Ambassador Princeton Lyman, Assistant Secretary for Refugee Programs, to discuss the administration's fiscal year 1991 budget request for migration and refugee assistance.

I must say that I am pleased by the amount that you are requesting, at least compared to last year when the request came in about $100 million short. We made up part of that shortfall last week on the Senate floor in the fiscal year 1990 supplemental. At that time we approved $70 million for refugee admissions. We added another $25 million for refugee assistance.

The situation facing the world's refugees if the current trends continue is really nothing less than a catastrophe in the making. I do not know how it could be described any other way.

Some 5 years ago there were 10 million refugees in the world. Today there are 15 million refugees. The world's refugees are equal to 30 times the population of my own State of Vermont.

During that same period, the amount that we have spent on refugee assistance has fallen. Five years ago when there were 10 million refugees, the United States contributed about $20 per refugee overseas. Today with 15 million, the world's most powerful, wealthiest nation contributes $12.

International organizations like the U.N. High Commissioner for Refugees and the International Committee of the Red Cross have also cut back drastically in basic services to refugees on the edge of survival. The UNHCR estimates a quarter of a million refugee children are acutely malnourished.

An equally serious issue is the millions of people who have been displaced within their own countries. Although not technically refugees, they suffer from the same hardships, having been forced to flee their homes because of civil war and famine.

The urgency of the crisis facing these people is evident from the fact that we will be hearing today from a representative of the International Committee for the Red Cross. This is the first time the ICRC has sent a representative to testify before Congress, and I think it underscores the very serious problems we face.

Now, there is no doubt in my mind that the American people support humanitarian aid. You show a picture or a description of a refugee camp and the problem of the refugees and you ask for help from the people to whom you are showing it and you always get the help.

But this is not reflected by the administration's budget. Let me tell you just why I worry about this. We see a $300 million increase in the foreign military sales program. We see a $300 million increase in the economic support program. But we see only a $5 million increase in the refugee budget. It is almost like it is put in as an afterthought, that, well, we have got to put something in there, so we toss a few crumbs.

The priorities in foreign aid have got to change. I discussed this with Secretary Baker last week when he testified before this committee. Development assistance, humanitarian aid, refugee assistance, economic competitiveness, and support for democratic institutions have got to start coming ahead of more and more military aid.

The world is changing. There are priorities for the United States that ought to supersede those of increasing foreign military aid.

I appreciate your being here so that I can say that one of those priorities should be in the area of humanitarian aid, particularly in the area of refugee assistance.

I yield to my distinguished colleague, Senator Hatfield.

STATEMENT OF SENATOR MARK O. HATFIELD

Senator HATFIELD. Thank you, Mr. Chairman. I want to express my appreciation for your calling this hearing and for the leadership that you have shown in this field over a long period of time. I think that the title of today's hearing is very significant, as we do

entitle it "The Global Refugee Crisis." It is indeed a crisis of global proportions.

I can think of no better way to describe the state of refugee affairs around the world. As you indicated, the growth factor alone should cause us to take very special note, in 5 years growing from 10 to 15 million refugees.

We know today that boats of asylum seekers are being pushed off from the shores of Malaysia. Vietnamese face the prospect of forced repatriation from Hong Kong. Refugees on the Thai-Cambodian border are pawns in a sad and seemingly endless war over Cambodia.

Food is scarce in African refugee camps, and international refugee organizations around the world do not have enough resources to perform their mission.

My hope is that the United States will show strong leadership in addressing the global refugee crisis. This is a pure humanitarian effort that should not be driven by the whim of geopolitical strategy and considerations. Now is the time for creative and forceful United States involvement in easing the plight of the world's refugees.

Mr. Chairman, I have some questions I would like to pursue later on. But thank you again for taking leadership in this very serious and very important issue.

Senator LEAHY. Thank you very much, Senator Hatfield.

Let us begin. We have our first panel here. Madam Ambassador, are you going to start us off?

SUMMARY STATEMENT

Ambassador LAFONTANT. Thank you very much.

Senator LEAHY. Go ahead.

Ambassador LAFONTANT. Good afternoon. I would like to thank you, Mr. Chairman and the committee, for having the hearing today.

My formal testimony has been submitted.

Senator LEAHY. It will be made part of the record.

Ambassador LAFONTANT. And I would like to emphasize, however, a few main items that are contained therein.

As you have stated, the world situation concerning refugees has worsened. Our figures show in the last decade we have gone from 7.3 million to 15 million, but international contributions have not kept pace.

The effects of the current budget crises are perhaps most evident in Africa. I recently returned from a 4-week, six-nation trip to east and southern Africa, visiting camps and resettlements for refugees and internally displaced people. We went to Malawi, South Africa, Swaziland, Mozambique, Zimbabwe, and Kenya.

They all have a common thread. I found scared, hungry people, sometimes naked, trying to find a place just to put their heads. In Malawi, where 1 out of every 10 persons is a refugee, I saw firsthand the terrible consequences of the Mozambican war. I saw the consequences that this war has wrought on the Mozambicans as well as the Malawians, who have opened their arms and welcomed their brothers and sisters from across the border.

What impressed me most was the generosity of these poor people, people in one of the smallest, one of the poorest countries in the world reaching out to help their neighbors. And instead of man's inhumanity to man, I found in Malawi man's humanity, man's generosity to man.

And I certainly believe that a country like Malawi should be rewarded for what they are doing and encouraged in what they are doing. The people are paying an enormous price there. Diseases like cholera, measles, malnutrition, all of these are of grave concern.

I was pleased to meet with President Banda of Malawi and was happy to be able to say that the United States had contributed another $5 million to be earmarked for Malawi alone. In Malawi you have about 200 children to 1 teacher. You have health clinics that are far from adequate. People are hungry.

But what I found in Malawi was that the children are being nurtured and loved and accepted in the community, so that you saw smiling faces even in the midst of this poverty.

When I went to South Africa, however, I was not upbeat. I was totally depressed, because on one side you see the opulence of Johannesburg and the Afrikaaner and on the other side you see the squatters camps, people living off garbage.

And then in South Africa, on the border between Mozambique and South Africa, I saw that electric fence. It is one thing to read about it, another thing to hear about it, but to actually see it firsthand, it is hard to believe that people can be so diabolical and cruel, that that fence is put up to kill, and it does kill, the Mozambicans who are trying to come, to escape civil war.

I spoke with some of the representatives in the South African Government about the fence, and one man said to me:

> Well, you know, those people managed to get out, escape from minefields in Mozambique; they even get through Kruger Park and they are not torn apart by the animals; and then they come over our fence in spite of the electricity; they get here anyway.

And my question naturally was to him then: If the fence is not a deterrent, why do you not take it down? And it is my hope that that will be one of the first things under the new regime, the removal of the electric fence or at least to have the current turned off.

The three major countries in the Horn, Sudan, Ethiopia, Somalia, are all beset by fierce civil wars which have generated approximately 2 million refugees and massive internal displacement, with no end in sight. To make matters worse, another severe drought has settled upon Ethiopia.

The United States estimates of famine-stricken people run as high as 5 million. To combat this latest famine, the United States has committed over 200,000 metric tons of food. The United States has also taken the lead in encouraging an agreement acceptable to both the rebel groups and the Ethiopian Government to permit food transports into stricken areas.

One of my main priorities is to see that the level of assistance flowing to African refugees is increased.

Two other areas of the world deserve special mention. Consider Afghanistan. A decade of war and merciless attacks by the Soviet

Union has left the country in shambles and the Afghans in ruins. The war in Afghanistan continues. We must remain ever mindful of the fact that over 5 million refugees languish in neighboring Pakistan and Iran, and that several million Afghans are internally displaced.

The United Nations Special Coordinator for Afghanistan is working hard to create zones of tranquility able to absorb voluntarily returning Afghans.

We are also concerned by the disruption in the lives of Palestinian refugees on the West Bank and in Gaza. In this regard, the United States will continue to be a major supporter of the United Nations Relief and Works Agency for Palestine Refugees.

The largest single element of the program is education, which accounts for over 60 percent of the UNRWA budget, and we are encouraged by the Israeli decision to permit the reopening of three UNRWA training facilities which had been closed since December 1987.

The admissions program, an integral part of the U.S. refugee policy, has been very successful. Although admissions levels will be set later this year by the President after consultation with the Congress, for budget purposes we estimate funding 110,000 refugee admissions in fiscal year 1991.

The orderly departure program for Southeast Asian refugees has proceeded well. Pursuant to an agreement reached last year between the United States and Vietnam, the first planeload of former reeducation center detainees arrived in the United States in January. By the end of fiscal year 1990 we estimate that 7,000 former detainees and their families will arrive in the United States.

Our Amerasian program has brought children and their immediate family members, long the objects of persecution in Vietnam, to the United States. In fiscal year 1990 our plan is to resettle 15,000 Amerasians in the United States. Our ultimate goal is to admit all Amerasian children and their family members who wish to come to the United States, and we estimate that could be done by the end of 1991.

As regards the comprehensive plan of action for Indochinese refugees, I visited London and spoke with members of Her Majesty's government, and there we reiterated the U.S. position against mandatory repatriation of the boat people in Hong Kong. We stressed the need to preserve the right to first asylum.

Vietnam's neighbors have on the whole shown great forbearance and generosity in affording first asylum to those who seek it. But as you have already suggested, Malaysia has continued a policy of pushoffs, which is most disturbing and which we have strongly protested.

PREPARED STATEMENT

The transition of Soviet processing from the Rome-Vienna pipeline to Moscow has gone remarkably well. We expect the last group of people in Rome to leave by the end of this month.

In past years this committee has stressed the importance of coordination between the Departments of State and HHS on refugee

admissions planning and budgets, and we agree that this is extremely important.

[The statement follows:]

STATEMENT OF HON. JEWEL S. LAFONTANT

I would like to thank you, Mr. Chairman, and the members of this committee for inviting me to be with you today. I am grateful for this opportunity to bring to the attention of the Congress and the public the critical issues surrounding the world's refugees.

Although there have been several important successes in recent years, overall, the global refugee situation remains very serious. In fact, in some aspects, the world refugee situation has worsened. For example, in the last decade, the refugee population has grown from 7.3 million to 15 million. Since 1988 alone, the refugee population has increased from 12.6 million to 15 million.

I would like to focus my attention on the refugee crises in Africa. I recently returned from a four-week visit to refugee camps and settlements in Malawi, South Africa, Swaziland, Mozambique, Zimbabwe and Kenya. They all have a common thread. I found scared, hungry, sick people, sometimes naked, trying to find a place to put their heads.

Africa is currently home to over 4 million refugees, a figure amounting to nearly one third of the world's total. Malawi alone is now home to well over 800,000 Mozambican refugees, a figure equal to one-tenth of its total population of 8 million. The refugee population is predicted to reach 850,000 by July. The crush of refugees, combined with severe flooding and mealy bug infestation, has produced a deepening crisis for both the refugee and indigenous populations.

Many refugees walk for days to reach Malawi by crossing the Zambezi river. They do so to escape hunger and heinous raids by RENAMO forces that often result in kidnapping, forced labor,

murder and confiscation of property and food. In the refugee camps in Malawi, the tide of famine has been stemmed for the time being, and there have been small improvements in health and sanitation facilities. However, the refugees continue to pay an enormous price for their plight -- diseases like cholera and measles are common, and malnutrition among children is a grave concern.

During my visit with President Banda of Malawi, I announced that the United States had contributed an additional $5 million for UNHCR programs in Malawi and I delivered a personal letter from President Bush. President Banda was clearly touched by the correspondence and referred to it several times. He mentioned roads, potable water supply and sanitation as key areas where help was needed to combat the effects of the massive refugee influx.

The South African Government, unfortunately, has not welcomed the Mozambican refugees in the same manner the Malawians have. In fact, the South African Government does not even recognize the Mozambicans as refugees. However, no one can deny, after seeing the conditions under which these people live, that they are refugees in spirit. Many of those I saw were uprooted, forced to live in specific townships or squatters camps, or moved across artificial borders to semi-autonomous "homelands."

Kangwane is one of the so-called "homelands" I visited which provides a haven not only for indigenous South Africans but for Mozambican refugees as well. It is also the homeland where the electrified fence, erected by the South African Government, has caused the death of some 89 people who tried to flee Mozambique seeking refuge in South Africa. After fleeing the internal conflict in Mozambique, surviving an escape through minefields within their own country, avoiding wild animals, hiding from

Mozambican and South African soldiers en route and living off the remnants of a parched earth, Mozambicans are then faced with an electrified fence as another hurdle to cross in their fight for survival.

In Swaziland, violence among the new refugees from Natal forced the cancellation of my visit to one of the camps. If the ethnic violence in South Africa continues, the flow of refugees into Swaziland will increase and be a matter of great concern. One of the camps I was able to visit was originally intended to resettle 5,000 ethnic Swazi refugees from South Africa. Today, it accommodates an equal number of Mozambican refugees. I was pleased to have an opportunity to call on the King of Swaziland and to deliver a personal message from President Bush.

In Zimbabwe, I visited the largest of the four refugee camps, which are becoming increasingly crowded as the government moves spontaneously settled refugees into camps. The government of Zimbabwe has taken this step to try to keep out suspected RENAMO infiltrators. There is a great need for refugee reception centers for screening of the newcomers.

There are other countries in Africa I intend to visit. The three major countries in the Horn -- Sudan, Ethiopia, Somalia -- are all beset by fierce civil wars which have generated approximately 2 million refugees and massive internal displacement with no end in sight. To make matters worse, another severe drought has settled upon Ethiopia. U.S. estimates of famine-stricken people run as high as 5 million.

Having experienced the tragic famines of 1984-85 and 1987-88 in Ethiopia, the United States is better prepared to deal with the current food shortages in that country. Since the Famine Early Warning System detected the growing emergency six months ago,

the United States immediately committed over 200,000 metric tons of food. The U.S. has also taken the lead in encouraging an agreement acceptable to both the rebel groups and the Ethiopian government to permit food transports into stricken areas. We are encouraged by a recent shipment of 1300 metric tons of food into one of the neediest areas, but the situation remains precarious. For that reason, the President authorized a drawdown from the Emergency Refugee Migration Account of $1.2 million for preparations against a possible influx of Ethiopians into Sudan.

Together with its allies and international organizations, the United States is working hard to provide assistance to the world's 15 million refugees, wherever they may be located. At the same time, we are looking more closely at the reasons people flee their homes in the first place, and are trying to help avert these flows. When political conditions permit, voluntary repatriation is the only way to resolve a large-scale refugee situation. Our efforts to bring independence to Namibia have finally paid off. For example, over forty thousand Namibians have returned home. And, if our efforts to resolve the conflicts in Afghanistan and Cambodia are successful, millions of people could return to their homelands.

We are also hopeful that the democratically-elected government in Nicaragua will create favorable conditions for the refugees returning from Honduras and Costa Rica. President Bush's FY90 economic assistance program request for Nicaragua includes $45 million for the repatriation and resettlement of the Resistance and refugees.

We continue to be concerned about the growing turmoil in the lives of Palestinian refugees on the West Bank and in Gaza. In this regard, the United States will continue to be a major

supporter of UNRWA, the U.N. Relief and Works Agency for Palestinian Refugees, whose humanitarian assistance targets vulnerable women and children in this group. The regular UNRWA program provides for the needs of the Palestinian refugees in the agency's five fields of operations. The largest single element of the program is education, which accounts for over 60 percent of the UNRWA budget. We are encouraged by the Israeli decision to permit the re-opening of three UNRWA training facilities which had been closed since December of 1987. The second largest component of the regular budget is the health program. UNRWA medical facilities handle five million patient visits annually. I might also add that UNRWA has been successful in its efforts to reduce the infant mortality rate of the refugee community. Finally, the relief component of the UNRWA budget focuses its energies on programs that promote self-reliance among the refugees.

Another area of the world where the United States is very concerned about the refugee population, and where we are making every effort to alleviate their plight is Afghanistan. A decade of war and merciless attacks by the Soviet Union has left that country and its people in ruins. We must remain ever mindful of the fact that over five million refugees languish in neighboring Pakistan and Iran, and several million Afghans are internally displaced. The U.N. Special Coordinator for Afghanistan is working hard to create "zones of tranquility" able to absorb voluntarily returning Afghans. If Afghans were to return home, the world's refugee rolls would be reduced by more than one-third.

As the number of refugees has expanded in the past decade, international contributions have not kept pace at the same rate. In 1989, for the first time, UNHCR was forced to carry over a deficit into the next year. To avoid another deficit,

and pending a budget review, UNHCR must limit spending at last year's level through the first six months of 1990. The results of the review will be the basis of discussion at an extraordinary meeting of the Executive Committee in June, where decisions will be taken on the budget and resources for the balance of the year.

Despite the U.S. Government's current budget constraints, the United States remains the single largest donor to major humanitarian organizations assisting refugees. We fully intend to maintain this role. The International Refugee Assistance request for fiscal year 1991 is 215.2 million dollars, a 46.6 million dollar increase over this year's appropriation. This request includes increases for international organizations such as UNHCR and ICRC, and for their programs in East Asia, Africa, the Near East and Central America.

I would also like to say a few words about our refugee admissions program, which has proven to be quite effective. The transition of Soviet processing from the Rome/Vienna pipeline to Moscow has gone remarkably well. We expect the last group of people in Rome to leave by the end of May. The elimination of care and maintenance costs in Rome and Vienna will save an estimated $40 million dollars this year.

Despite a huge workload -- over 500,000 applications have been distributed in the USSR since October 1, 1989, and 200,000 are in some stage of processing -- the Washington Processing Center is functioning well. The Soviet authorities have generally been cooperative, and we have not experienced problems with the Soviet mail system. In anticipation of an even greater workload in FY91, we are currently investigating ways to improve Moscow processing. For example, we are working toward facilitating an agreement whereby hospitals in Moscow would

perform the required medical examinations for refugee applicants.

The Orderly Departure Program for Southeast Asian refugees has also been very successful. Pursuant to an agreement reached last year between the United States and Vietnam, the first planeload of former re-education camp detainees arrived in the U.S. in January. We are continuing this program, and we estimate that by the end of FY90, 7,000 former detainees and their families will arrive in the United States.

Our Amerasian program has been successful in bringing children and their immediate family members, long the objects of persecution in Vietnam, to the United States. In fiscal year 90, our goal is to resettle 15,000 Amerasians in the United States. Our ultimate goal is to admit all Amerasian children and their family members who wish to come to the United States.

As regards the Comprehensive Plan of Action for Indochinese refugees, I might mention that I testified before this very Committee on March 1st on the subject. Since the CPA was adopted, Vietnam's neighbors have, on the whole, shown great forebearance and generosity in affording first asylum to those who seek it. Unfortunately, however, Malaysia has continued a policy of push-offs, which is most disturbing and which we have strongly protested.

It is the United States' strongly held view that no one be sent back to Vietnam involuntarily. We believe that people who have already volunteered to return to their homeland must be given a chance to do so in safety and in dignity. In this regard, we must make a concerted effort to strengthen the CPA system. We are working hard to find a consensus that will preserve first asylum, emphasize voluntary repatriation, ensure fair screening

procedures, and provide adequate protection for asylum seekers in Hong Kong and for those returned to Vietnam. The stakes are too high to allow the international framework we worked so hard to create to fall apart.

The admissions program is an integral part of U.S. refugee policy. Although admissions levels will be set later this year by the President in consultation with the Congress, for budget purposes, we estimate funding 110,000 refugee admissions in FY91. In some instances, resettlement is the only acceptable solution. Offering resettlement to those who have no other option also strengthens our ability to obtain commitments from other countries to provide first asylum -- this is especially true in Southeast Asia.

In past years, the Committee has stressed the importance of coordination between the Departments of State and HHS on refugee admissions planning and budgets. I fully agree. With regard to domestic resettlement, under the Refugee Entrant Account of the Health and Human Services Department, the amount requested for FY91 -- $368.8 million -- is also based on 110,000 admissions. As U.S. Coordinator, I chair a weekly meeting of senior representatives from the Departments of State, Health and Human Services and Justice, to ensure policy and program coordination, including budget issues. Furthermore, both the Office of Refugee Resettlement at HHS and the U.S. Coordinator's Office closely monitor domestic resettlement programs to ensure that adequate funding is available for high priority programs.

We have also taken steps to improve coordination and communication with our partners in state and local government. My office and the Office of Refugee Resettlement at HHS have both conducted regular consultations with state refugee

coordinators. For our priority effort to resettle Vietnamese former political prisoners, ORR has set up a task force involving states, voluntary agencies, and Vietnamese-American leaders. Finally, the Bureau for Refugee Programs is providing all state coordinators with the annual state-by-state resettlement plans of the voluntary agencies and with monthly reports of scheduled arrivals.

While the budget currently makes no provision for any of the privately funded numbers that have been utilized in recent years, we would welcome the opportunity to consider with the private sector what would be possible again in FY91. To date, the Cuban, Jewish, Vietnamese and Zoroastrian communities have taken advantage of the Private Sector Initiative, a program run out of the Coordinator's office.

It is important to consider, however, that the number of people wishing to come to the United States far exceeds our capacity to fund and absorb refugee admissions. A prime example of this fact is the large number of Soviets wishing to emigrate to this country. As you know, several bills have been introduced in Congress to reform the legal immigration system. Many deal with issues apart from U.S. refugee policy. However, the pending proposal for special immigrant legislation could provide for the admission of a substantial number of Soviets beyond the funded number of refugees and the normal number of immigrants. With such legislation, the total number of Soviets coming to the United States in FY91 could exceed the level anticipated this fiscal year.

In conclusion, I would like to point out that the United States has always played a leading role in refugee matters worldwide. Our country's beginnings as a land of refuge for those escaping religious persecution and our development as a land of

immigrants gives us a deep understanding of the plight of the world's refugees. While we constantly encourage other countries to expand their efforts to help this needy population, we must continue to be a major provider of assistance and resettlement. The results of our successes and the increased problems in the world refugee situation require the United States to be a leader in refugee affairs.

ROME-VIENNA PIPELINE

Senator LEAHY. Excuse me, Ambassador. If that is true about the processing of Soviet Jews through the Rome-Vienna pipeline, if that is about to be cleared out, then you will be able to shift resources from admissions to assistance, is that correct?

Ambassador LAFONTANT. Well, I would feel that that saves the U.S. Government about $40 million and I would say yes, some of that money could be used in other areas.

Senator LEAHY. Well, what other areas? I mean, will it go back to the Treasury? Will it be used? How will it be used?

Ambassador LAFONTANT. I believe it could be used in other programs, for instance assistance or admissions. But maybe Ambassador Lyman, who is on top of this——

Senator LEAHY. There is no shift shown in the budget submission.

Ambassador LAFONTANT. Ambassador Lyman should be in a position to respond to that.

Ambassador LYMAN. Senator, we will be able next year, in fiscal year 1991, to reduce the admissions budget by some $40 million, largely because of the phasing out of the Rome-Vienna requirements. You will notice that there is an increase in fiscal year 1991 of $46.5 million for assistance. So we are shifting a higher proportion of our funds and a higher amount of our funds into assistance next year, and the admissions funds are going down.

Senator LEAHY. So your 1991 budget submission will show a $40 million drop in admissions and a $46 million increase in assistance?

Ambassador LYMAN. That is correct.

Senator LEAHY. Did you have anything further you wanted to add? Your time is up.

COORDINATION WITH OTHER AGENCIES

Ambassador LAFONTANT. Is it up? Well, I just wanted to say before I close that we agree that there should be coordination between the Department of State and HHS, and as Coordinator I chair a weekly meeting of senior representatives from the Departments of State, Health and Human Services, as well as Justice and INS. And to these meetings OMB comes and also NSC, so that we do not take each other by surprise. We tell each other what we are thinking about and the reasons we reach the conclusions we do.

So we are working on a coordinated basis.

USE OF ERMA ACCOUNT

Senator LEAHY. You may want to go even further. You may want to talk about how the lack of some coordination may create a great deal of problems. And you do plan to tap the emergency refugee account, ERMA, paying for shortfalls in refugee assistance. And that tapping is now going to require a different scoring on the budget because it appears that it is just being used as a regular budget item and not for emergencies, as it was intended. Unfortunately, your actions and administration actions, now diminish some of the flexibility that we have here in the Congress in providing money available for you.

Ambassador LAFONTANT. I just want—excuse me.

Senator LEAHY. I am sorry. Did you want to continue?

Ambassador LAFONTANT. No, no; I thought you had finished.

Senator LEAHY. Well, I had. I was just going to yield to Ambassador Lyman, because his time is now running, too.

Ambassador LAFONTANT. I just wanted to make one closing——

Senator LEAHY. And most of it is gone. Go ahead.

Ambassador LAFONTANT [continuing]. That I strongly believe that those of us who are working in the refugee area have to become stronger advocates and that we have to become the voice of the voiceless.

Senator LEAHY. There is nobody who would disagree with that. It is just that the budget does not show it at all.

Ambassador Lyman?

STATEMENT OF AMBASSADOR PRINCETON LYMAN

Ambassador LYMAN. Senator, let me speak very quickly, summarizing my statement which you have for the record. Let me just go over the numbers for 1991, as we started to.

In fiscal year 1991 we are requesting on the assistance side $215.2 million, and as I mentioned that is an increase on the international assistance side of $46.6 million over the fiscal year 1990 request, and it does reflect our concern, along with yours, about the condition of refugees and the rise in the number of refugee requirements.

The breakdown of those is $39 million for East Asia, $75 million for Africa, $88 million for Near East and South Asia, and $12.7 million for the Western Hemisphere.

The request also includes $30 million to assist resettlement of refugees in Israel, which is a $5 million increase over this year.

You have spoken to the assistance requirements and the funding crisis that has occurred in the international refugee community. We are very conscious of it. The needs have risen over several years. Other donors have begun to increase their levels. The Japan contribution, for example, to ICRC has gone up some sixfold in the last 4 or 5 years.

Nevertheless, in 1989 donor contributions did not match the requirements of these agencies and a funding crisis has been in process since then, and an exhaustive review of international refugee budgets. We are going to have to make some hard decisions, all of us.

How far do we want these international agencies to get into education programs, into self-sufficiency programs, et cetera? How do we do that and still take care of the care and maintenance and the immediate requirements?

PREPARED STATEMENT

We have this year, as you noted, begun to draw down the President's emergency fund for urgent life-threatening situations and unforeseen requirements. The Liberian situation, which was an unforeseen emergency where 200,000 new refugees were produced out of conflict in that country and the President drew down over $1 million of his funding for that, as well as another $10 million for other programs in Africa and $10 million for additional programs in Southeast Asia.

[The statement follows:]

STATEMENT OF AMBASSADOR PRINCETON N. LYMAN

I am pleased to be here in support of the Department of State's FY 1991 appropriation request for Migration and Refugee Assistance. Mr. Chairman, the Department is requesting $450 million for Migration and Refugee Assistance (MRA) and $25 million to replenish the U.S. Emergency Refugee and Migration Assistance (ERMA) Fund.

There currently are an estimated 15 million refugees worldwide, many of whom are in need of international assistance. In very general terms, the Migration and Refugee Assistance appropriation is used to help address the needs of these people. Specifically, it funds U.S voluntary contributions to the international organizations and voluntary agencies engaged in providing international assistance to refugees and conflict victims. The primary international organizations receiving voluntary U.S. contributions from these funds are the United Nations High Commissioner for Refugees (UNHCR), the International Committee of the Red Cross (ICRC), the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), and the United Nations Border Relief Operation (UNBRO) which works on the Thai-Cambodian border.

As the decade of the nineties begins, there are brighter prospects of long-awaited opportunities to resolve the situations of many of these refugees. We are beginning the repatriation of Nicaraguan refugees who after years of war and political turmoil are now able to go home; there is the potential for significant repatriation movements in Africa; and we look forward to the repatriation of Afghan refugees to their native country. While we have waited a long time for these opportunities, they will require significant resources. This request seeks to support those efforts which now are underway; some, however, are not firm enough to be included in this request.

The MRA appropriation also funds the admission of refugees to the United States, an essential element of which is carried out by the International Organization for Migration (IOM). Finally, the MRA appropriation funds the administrative expenses of the Department's Bureau for Refugee Programs which is responsible for the oversight of both the assistance and admissions programs.

U.S. participation in international assistance programs for refugees and conflict victims and refugee resettlement efforts upholds the humanitarian principles to which the United States subscribes and supports U.S. foreign policy objectives in areas affected by both the economic and political burdens imposed by large refugee populations.

International Assistance

For FY 1991 we are requesting a total of $215.2 million to support regional international assistance efforts overseas on behalf of refugees and conflict victims. This is an increase of $46.5 million over the FY 1990 appropriated level for these activities.

This request, distributed geographically, seeks $39 million for programs in East Asia, $75 million for programs in Africa, $68 million for programs in the Near East and South Asia, and $13 million for programs in the Western Hemisphere. Each of these amounts represent increases over FY 1990 appropriated levels. However, when the amounts drawn from the Emergency Fund are added to the MRA appropriated levels, the total for assistance in FY 1990 is only $15 million lower than the request for FY 1991. My statement as submitted for the record includes a table comparing estimated assistance levels by geographic region in FY 1990 and FY 1991.

Assistance by region	FY 1990 MRA	FY 1990 ERMA	FY 1990 TOTAL	FY 1991 MRA
East Asia	$ 23,815	$10,000	$ 33,815	$ 39,000
Africa	54,981	14,650	69,631	75,200
Near East/South Asia	81,857	7,000	88,857	88,300
Western Hemisphere	8,000	300	8,300	12,700
Total	$168,653	$31,950	$200,603	$215,200

The request, distributed organizationally, includes an estimated $110 million for the worldwide programs of the UNHCR, $30 million for the ICRC, $11.5 million for UNBRO and $63.3 million for UNRWA. Both on a geographic and an organizational basis, the significant increases over FY 1990 levels are requested so that essential services can be maintained.

The request also includes $30 million to assist in the resettlement of refugees in Israel. While this $5 million increase over the FY 1990 appropriated level is modest in relation to the enormous increase in the arrivals of Soviet Jews to Israel, this USG contribution -- as in past years -- represents only a small part of the total budget of the United Israel Appeal, which benefits from an extraordinary worldwide private funding effort.

In addition, we are requesting $5.7 million to support the Geneva-based International Organization for Migration (IOM) which continues to play an essential role in assisting refugees and migrants around the world, and $6 million to support the core activities of the ICRC.

Over the past year, attention has been focused on both the difficulties of the international organizations to meet the needs of refugees and conflict victims, and the donor community's responses to their appeals for funds. This is particularly true for the UNHCR. As a result of the growing number of refugees in first asylum and greater ICRC access to

conflict victims the appeals for funds have increased steadily. In recent years, the traditional donor community has found it increasingly difficult and in some cases even impossible to finance fully the proposed budgets of these organizations. The result has been a serious funding crisis.

The full force of this funding crisis emerged at the close of 1989 although it was already apparent earlier. Recognizing the seriousness of the crisis, the Executive Committee (EXCOM) of the UNHCR set up a Working Group which has, in conjunction with UNHCR management, been making an exhaustive review of the UNHCR budget and its various components. While that review is in progress, UNHCR's General Program has been limited to a level below what UNHCR originally projected as its needs this year. This review already has provided donors a better understanding of UNHCR's budget process and of the costs of programs and extensions of the UNHCR mandate which the EXCOM or its individual members have called for in recent years.

Several issues have been highlighted by the examination. For example, providing protection and care and maintenance hardly suffice as refugee populations remain for longer periods in asylum. More education and self-sufficiency oriented programs have had to be established. How far should UNHCR go in these directions in a time of resource constraints? In East Asia, UNHCR has been given a mandate that extends in part to the protection of those determined not to be refugees. How far should we expect UNHCR to be able to move in this direction, and will the funds be there to enable it to undertake this task properly? All of us -- the donor community, the host countries, and UNHCR -- will face some hard choices and decisions at the end of this month when the Executive Committee has to decide on budgets for the second half of 1990.

Throughout this review process we have been especially alert that life-sustaining and other vital programs not be

jeopardized. Looking ahead, and without trying to anticipate the outcome of the extraordinary meeting of the UNHCR Executive Committee, it is clear that projected income for UNHCR in 1990 will not be sufficient to meet the organization's projected requirements. Therefore, priorities need to be established; most efficient management must be exercised. Nevertheless, donors, not simply the U.S. but all members of the international community -- both traditional donors and others -- must do more.

For our part, however, the President on March 7 approved a drawdown from the Emergency Refugee and Migration Assistance Fund of just under $25 million to assist in life-sustaining programs and for new emergencies. These funds have been used to support UNHCR implementation of the Comprehensive Plan of Action for Indochinese refugees in the amount of $10 million; to provide a U.S. contribution of $12.45 million to the UNHCR for programs in Africa -- specifically $5.25 million for emergency programs in the Horn of Africa, $1 million for programs for Angolan refugees in Zaire, $1.2 million for the program on behalf of refugees from Liberia, and $5 million for life support programs in Malawi; to contribute $2 million for ICRC relief programs in the Horn of Africa; to make a $300,000 contribution for ICRC protection, medical and relief programs in El Salvador and Panama; and to provide $200,000 for the League of Red Cross and Red Crescent Societies for programs on behalf of Liberian refugees. More recently, the President approved a second drawdown from the Emergency Fund in the amount of $7 million to maintain critical assistance programs of the United Nations Relief and Works Agency for Palestine Refugees in the Near East.

I would like to comment on the very serious situation in Liberia for which some of the ERMA funds were used. An insurgency that began unexpectedly last December caused

displacement of over 300,000 people. The reported numbers of refugees in Guinea and Cote d'Ivoire exceed 200,000. We believe it is prudent for UNHCR to adopt an assistance strategy that assumes refugees will be in exile for at least a year and that attempts to develop programs which foster self-sufficiency. International organization appeals for funds to cover requirements for just the next three to six months total almost $20 million.

The U.S. has responded to these appeals with contributions of $1.6 million in cash (using funds from both MRA and ERMA) and 10,000 MT of rice which will cover the first three months of the international feeding requirement. This early U.S. contribution makes us the single largest donor to date. We are strongly encouraging other donors to provide their support to what inevitably will be a significant undertaking.

Our FY 1991 request for international assistance funds will maintain the traditional U.S. humanitarian leadership and underscore our continued commitment to the refugees and conflict victims themselves.

U.S. Refugee Admissions

The FY 1991 request for funds for refugee admissions totals $185.2 million. Based on a projection of 110,000 admissions, processing costs will require $18.5 million; transportation and related services costs, require an estimated $79.5 million; reception and placement grants, require $64.7 million; and English language training and cultural orientation, $22.5 million. Assuming enactment of the $70 million supplemental appropriation for FY 1990 refugee programs, this FY 1991 request represents a $46.7 million decrease from FY 1990, a savings resulting largely from the decision to process Soviet refugee applicants in Moscow rather than in Rome and Vienna.

This change will save millions of dollars in U.S.-funded care and maintenance costs in Europe and has led to the establishment of an efficient and effective system for processing Soviet migrants. This fiscal year, 50,000 refugees and another 10,000 to 12,000 immigrants and parolees will come to the U.S. from the Soviet Union. Those previously processed in Rome and Vienna will be included in these totals and those centers will be closed. The last Soviet refugees from Vienna and Rome should arrive in the U.S. by the end of May or shortly thereafter.

In FY 1991 we want to be able to expand opportunities for Soviet refugees to come to the U.S.; therefore, the Administration places high priority on the pending proposal for special immigrant legislation. If this proposal were enacted, the total number of Soviets immigrating to the U.S. in FY 1991 could exceed the FY 1990 number.

During the past year, we were successful in reaching an agreement with the Government of Vietnam to process those who had served long years of detention in reeducation camps. In FY 1990 we estimate that over 7,000 former reeducation center detainees will join their families and loved ones in the United States after years of separation.

As you know, actual FY 1991 admissions levels will be set later this year by the President in consultation with the Congress, as provided for in the Refugee Act. For budget purposes, however, we have estimated 110,000 funded refugee admissions for FY 1991. While the budget currently makes no provision for any of the privately funded numbers that have been utilized in recent years, we would welcome the opportunity to consider with the private sector what would be possible again in FY 1991.

Administrative Expenses

The MRA request includes $8,528,000 for the administrative expenses of the Bureau for Refugee Programs. These funds are required to finance the salaries and operating costs for a staff of 107 permanent positions in Washington and overseas -- the same staff level as last year. These funds will enable us to monitor the condition of refugees and conflict victims overseas and those resettled in the U.S., as well as to ensure the effective use of U.S. Government funds. The amount required for the administrative expenses of the Bureau represents less than 2 percent of the total program request.

U.S. Emergency Refugee and Migration Assistance Fund

We also have included in this request $25 million to replenish the Emergency Refugee and Migration Assistance Fund in FY 1991.

Enactment of the FY 1990 supplemental appropriation of $70 million to cover admissions costs would make it possible to reserve the President's Emergency Refugee and Migration Assistance Fund for urgent assistance purposes. I referred earlier to the President's authorization of the use of over half of the Fund so far this year to respond to urgent assistance needs.

Conclusion

In formulating this request, we have tried to balance carefully the needs and opportunities on the assistance side with a continuation of our generous resettlement policy on the admissions side in accordance with the fundamental humanitarian objectives of the Migration and Refugee Assistance Act of 1962 and the Refugee Act of 1980.

I welcome the opportunity to answer any questions you may have on this request and on any aspects of the refugee program.

DROP IN U.S. CONTRIBUTIONS TO INTERNATIONAL REFUGEE ORGANIZATIONS

Senator LEAHY. Keep in mind that some of these international organizations are expanding, and it is not just because they are going on to other things like education and what-not. UNHCR, in 1985 was spending $4 per refugee. Today it is spending $38. So they cannot expand much on that.

But also in 1985, we contributed 27 percent of UNHCR's budget. Last year it was 22 percent. In 1985 we contributed 30 percent of the ICRC's budget. Last year it was 16 percent. The U.N. Relief Works Agency, UNRWA, has dropped from 40 to 27 percent since 1985.

I just mention that because we ought to go by the percentages. I realize other countries should be helping more, too. I am not suggesting the United States do it alone, but we are the wealthiest nation in the world and our contribution has been dropping as a percentage.

But please go ahead.

Ambassador LYMAN. Senator, your point is well taken. And without taking away from any of that, it is necessary that those agencies, as well as everywhere else, prioritize. And there is a feeling that more could be done to reduce costs, let's say for example UNHCR programs in Europe, and more attention to places in Africa, as Ambassador Lafontant was describing.

And there are other priority issues that need to be examined by the international agencies, and I think all the donors feel that way even as we recognize the requirements have been rising.

Senator LEAHY. I agree that more should be done in Africa. I think last year in overall aid we spent almost one-half as much for the 500 million people in black Africa as we are going to give in aid for 2½ million people in Panama this year.

I suggest that I do not doubt your priorities, but I just want to let a little reality filter its way in amongst the rhetoric here.

Go ahead, sir.

Ambassador LYMAN. Well, I hope it is not only rhetoric.

Senator LEAHY. Well, I do, too. And I'm not doubting your feeling on it, but there is a gap between what you are saying and what was in the budget.

Ambassador LYMAN. I was speaking, of course, to the international refugee budget.

Senator LEAHY. I understand.

REFUGEE ADMISSIONS

Ambassador LYMAN. And how those funds are allocated. Let me just say briefly on admissions, as I mentioned before, that, although we anticipate bringing in the same number of people next year as this year, we will be able to reduce the budget by over $40 million because we have been able to phase out the care and maintenance costs in Rome and Vienna, and that that will allow us to reduce that budget substantially.

A small c[illegible]ment on our administrative expenses, which I am happy to say are less than 2 percent of the total budget, but very important for our being able to monitor the programs.

Senator, I will draw this to a conclusion and be happy to answer any questions.

BUDGET REQUEST

Senator LEAHY. Did you appeal internally, at least within the State Department, for more refugee assistance last year?

Ambassador LYMAN. Well, actually we got for fiscal year 1991 the budget we requested.

Senator LEAHY. And last year—1990—did you try to get additional assistance funding for the refugee program and get turned down?

Ambassador LYMAN. I arrived part way through the year and the decision of the administration on that was to request a $70 million supplemental to cover the shortfall in admissions requirements, enabling us to draw on the President's emergency funds entirely for assistance, so that we could meet those requirements from the President's emergency fund.

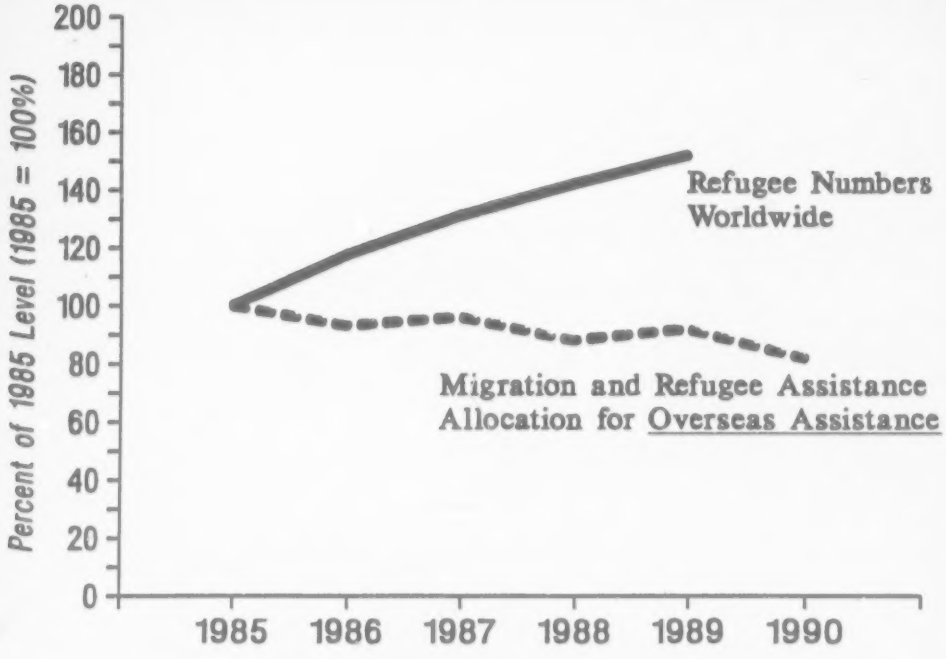
USE OF ERMA ACCOUNT

Senator LEAHY. We have got a problem here, though. We put $50 million in ERMA, and what is bothering me is that ERMA is supposed to be an emergency refugee account. There is not supposed to be an accounting sleight of hand where you ask for a certain amount for refugees and assume that you are going to tap ERMA.

It is supposed to be for unexpected emergencies. Last year the administration requested $370 million for migration and refugee assistance, and everybody knew that was too little. The administration knew it, we knew it, everybody else did. And the fiscal year 1990 supplemental took care on the admissions side.

Assistance, though, is another issue, and our graph over here shows how that has been dropping. Now, you have requested $215 million for refugee assistance, $25 million for ERMA. How much of that ERMA is going to be spent on nonemergencies?

U.S. FUNDING—OVERSEAS REFUGEE ASSISTANCE



ERMA FUNDS

Ambassador LYMAN. Well, as you say, you do not preprogram the ERMA. Our response, the reason we needed to draw on the ERMA funds, Senator, was because the number of refugees in key places were expanding, in Ethiopia, in Malawi, with new refugees coming in, straining the ability of existing programs. And as I mentioned, in Liberia we had a whole new situation unforeseen, which I think meets fully the criteria of the President's emergency fund.

We drew down from the President's emergency fund for ICRC in Central America after the expenses that rose because of the offensive of the guerrillas in El Salvador. So these were unforeseen or increased requirements that were occurring after the budget was submitted.

It is hard to say what will happen next year. Hopefully, one does not have those kind of situations, but they could occur.

Senator LEAHY. Yes; but the problem is that you send budgets up here for refugee assistance that are really low. Then everybody downtown says, Well, that is OK, as soon as we run out of the money in the refugee account, we will just tap ERMA, instead of asking for the money we really need in the first place.

Then, if you really do have an emergency, the emergency funds are gone and there may or may not be a supplemental that will go through. I wonder what would have happened to refugee assistance this year if we had not invaded Panama and thus had a reason for a supplemental to attach additional refugee funding to.

In fact, had we not had a supplemental foreign aid bill that will give as much money to both Panama and Nicaragua as we have

given them totally over the last 40 years put together, we might have had a harder time getting the additional refugee money that we did.

Now, I was glad to support, as I am sure both of you were, that additional refugee money. But my concern is that if the ERMA account is just going to be part of the overall refugee budget in the sense that it is like a little extra pot of money waiting to be tapped later on, you put us in a very real problem. If the ERMA account is continually utilized this way it will be scored by CBO at around 70 percent or more, and there will no longer be money there for an emergency, unless we come out with an emergency, emergency ERMA account.

So let me ask you the basic question: Because of the budget, are you having to choose between vulnerable refugees who need resettlement and vulnerable refugees oversees in camps who need assistance? Are you down to that point of deciding which of these two very vulnerable groups will be helped? Is it either-or, flip a coin to make a policy decision?

Ambassador LYMAN. Senator, I do not think that is the way that the decisions get made. I know a lot of people think that is the way they get made, but they do not. When you look at the resettlement requirements, they respond to particular situations where people do not have other options.

For example, in Southeast Asia the first asylum countries do not accept the Vietnamese boat people for permanent resettlement. The whole defense of first asylum rests on a resettlement program which the international community has committed itself to. There is no other choice there.

For the Soviet refugees coming out of the Soviet Union, something for which we have worked hard for years and which the Congress has been on record for many years, these are people who until recently had no other option at all once they finally came out.

They were not being offered first asylum permanent resettlement elsewhere. So the U.S. response in those cases is part of a refugee strategy.

In other cases where people are being offered first asylum and longer term possibilities in neighboring countries or where, as in Afghanistan, they are waiting to return to their home country, that is where the assistance requirements are needed.

So I see this as a part of a total refugee strategy, not one, well, gee, should we do more Soviets and fewer Mozambicans this year, but what are the situations to which we should respond?

Senator LEAHY. I hope you listen to Mr. Winter, who is going to testify later this afternoon, because he takes a differing view, as I am sure you know.

Ambassador LYMAN. I realize that, but I disagree with it.

Senator LEAHY. And I note incidentally that you and the Ambassador and anybody else will certainly be given ample opportunity to expand on your remarks based on what any other witness says, to add to it or anything else. I want as solid a record going into the markup as possible.

I have a couple other questions, but I want to yield to Senator Hatfield because I know he is on a tight schedule.

Senator HATFIELD. Thank you, Mr. Chairman.

May I shift gears a moment to ask one question. Then I have some others that I will submit to the record.

FIRST ASYLUM IN MALAYSIA

Madam Ambassador, on page 9 of your printed statement, you relate the unfortunate situation in Malaysia concerning pushoffs. I understand there are some 6,000 such pushoffs that have reached Indonesia, and of course the total number may never be known because those counted were the survivors.

And as you note, we have repeatedly asked Malaysia to restore first asylum and they have failed to respond. No change in that policy that I am aware of.

I am reluctantly asking my staff to look into a matter of developing some leverage, and I would like to have you comment on that since we have not achieved any change in the pushoff policy of Malaysia. Have you considered linking trade and other benefits to the restoration of first asylum for boat people by Malaysia?

Ambassador LAFONTANT. I have to be forthright with you. I believe the point of leverage would be outside, would not be on my platter. I understand what you are suggesting and we would like to have further discussions on it. We have discussed it in our Department, but we do not feel that we can make that kind of political decision.

In the past there has been leverage used in various similar situations. But no, I have not done anything personally other than to discuss it, and I cannot come up with a definitive answer on what steps the Coordinator's office may take.

But I have floated the idea. At our last meeting here you raised it and I had a subsequent meeting with you, with members of my staff, and I will just tell you we have been discussing it, but we have not come up with a definitive or a concrete response.

Senator HATFIELD. Have we discussed this matter with other countries to help them persuade Malaysia to end the pushoff system? Have you tried to develop some leverage through allies and others who hold our point of view?

Ambassador LAFONTANT. Well, yes, there have been discussions, persuasion. It has not paid off. But it does not mean that we are not going to continue to protest and try to get our allies to go along with us.

But as far as the leverage itself, I have no response at this point on that.

Senator HATFIELD. So, would you explore with us this possibility of linkage which gets an awful lot of attention from countries when we talk about our trade and tourist industries or our other financial arrangements? I do not suggest that this is my first priority of strategy, but it seems that we have failed to persuade Malaysia to move on this policy.

We have not been able to get very much leverage elsewhere. We have not seen very much response from our allies. It seems to me it is about time we deal with a little stronger action relating to linkage of Malaysia's interests to our humanitarian concerns.

Ambassador LAFONTANT. I certainly think that is something that we should explore diligently and pursue diligently. What we have done is we have entered into discussions following our meeting with you, but we have not been able to come up with anything yet.

But yes, we would like to work with you and see what can be done.

Senator HATFIELD. All right. We will look to work with you on this and to see how we might be helpful.

Ambassador LAFONTANT. Thank you.

Senator HATFIELD. Mr. Chairman, I do not want to interrupt your flow of questions.

Senator LEAHY. Oh, no, go ahead, please.

Senator HATFIELD. Could I ask one more?

Senator LEAHY. You take as many as you want. Go ahead. After all the leeway you have given me over the years, you take all the time you want, Mark, let me tell you.

Senator HATFIELD. Well, you are very kind.

REFUGEES ON THAI-CAMBODIAN BORDER

Madam Ambassador, as you know, the Prime Minister of Thailand has suggested the use of a neutral camp to house the refugees of the Thai-Cambodian border. In my view this proposal is one that the administration should support. We need not go into all the military and political implications of this particular policy, removing these people from the border and therefore reducing the possibilities of reestablishing military service, impressed service by the Khmer Rouge, and so forth.

But could I get from you what the administration has done or what is being done to support this proposal?

Ambassador LAFONTANT. I know we are very supportive of the proposal. How far it has gone I am not too sure.

Ambassador Lyman, have we taken steps?

Ambassador LYMAN. Yes; we have had discussions with the Thai Government and the other interested parties and the UNHCR. Senator, I think we have to be very careful in how this proposal proceeds, because what we do not want is a proposal like this to lead some of the faction leaders to take their people across the border in order not to have them go to a neutral camp.

So that one has to proceed very carefully so as not to produce the very result we are all opposed to. So what we have asked the Thai Government to do is to discuss with UNHCR and UNBRO the practical steps to moving in this direction and to do it in a way and perhaps in a phased way that does not precipitate action on the part of some of the political leaders among the Khmer.

And the Thai Government is doing that and having discussions with UNHCR and UNBRO and the donors, and we will pursue it with them and see if it cannot be done in a way that achieves the objectives without producing the opposite effect.

Senator HATFIELD. Well, such persons are being taken now, though, are they not?

Ambassador LYMAN. The Khmer Rouge have taken some of their people across from camps that are not under UNBRO control. We do not want anybody else to do that. And we also want to make

sure that this is done in a way that is not so disruptive of programs and more costly than can be done.

For example, there are facilities at Khao-I-Dang, as you know, and one could start there and develop programs there. There is also another consideration. We did not want the neutral camp concept to be seen as somehow a short-term phase which would force Khmer refugees going through there back before they were ready to go back, before there was a settlement and before it was safe.

So we wanted to make sure that the neutral camp concept was also one that allowed for full protection of the refugees. So those are some of the things that we are looking at with the Thai Government and the other donors on how this idea can proceed.

UNITED STATES POLICY TOWARD CAMBODIA

Senator HATFIELD. Mr. Chairman, I want to comment that these are not the folks to beat in on. The Secretary of State, Mr. Baker, is the one to beat in on on this problem. I do not know how these people could be expected to administer any reasonable, logical, intelligent program on the Thai border vis-a-vis Cambodian refugees until we have a policy that makes more sense than the confused, cloudy, muddled policy that we are following at the State Department now in terms of our future relationship with the Khmer Rouge and making up our mind on Song Sen, on Prince Sihanouk and the Vietnamese, vis-a-vis China, vis-a-vis the Soviet Union.

This is but a small little pawn out there, on this chess board of big league geopolitics between the major powers of the Soviet Union, China, and the United States. And I do not think we have shown very much courage. I do not think we have shown very much principle, frankly, when we get the Secretary of State up here saying that we would never have anything to do with the Khmer Rouge, and later saying, well, we may have something to do with the Khmer Rouge.

So I do not expect that you could enunciate a much clearer position on this problem because of the framework within which you have to operate.

But Mr. Chairman, I would like to have the Secretary of State back up here some time soon, so that we may pose some questions, to clarify this and bring some principle and some humanitarian dimension to the muddled policy that we are following out there vis-a-vis the Cambodian future and our relationships with the superpowers. I will not pursue it at this time.

Senator LEAHY. Anything further?

Senator HATFIELD. Thank you.

Senator LEAHY. Thank you.

RELAYING CONCERNS TO ADMINISTRATION

Secretary Lyman, I do not want a couple of my earlier questions to leave the wrong impression. I do not want you to think that my disagreements with policies are disagreements with you personally. I have a feeling that if you and I, Ambassador Lafontant and Senator Hatfield were able to sit down, unrestrained from either congressional realities on the one hand and administration realities on the other, I suspect we could put together a policy that would be

substantially different than the one we are discussing here. I know that you have fought for increases in a number of these areas.

Unfortunately, you are the one here, so we will just kill the messenger. It is an art form here in the Congress, and so you should just feel that you are sitting here watching artists at work. But just so you understand, we want both of you to bring our concerns back down the Avenue.

FISCAL YEAR 1991 BUDGET REQUEST

Last year there was a request for $370 million for the migration and refugee assistance program. Then, after we raised some very strong concerns here, there was an additional $70 million requested in the fiscal year 1990 supplemental appropriation. I discussed that with both Secretary Baker and Deputy Secretary Eagleburger before the supplemental came up. We then added $5 million to that request. So we have a fiscal year 1990 total of $445 million.

So you start with a $445 million appropriation for fiscal year 1990. For fiscal year 1991 the request was $450 million, only a $5 million increase. Is $450 million sufficient to meet U.S. commitments in contributions toward refugee needs, or will we be facing a supplemental next year?

Ambassador LYMAN. Senator, I think the circumstances that created the need for the supplemental this year were special ones. They related to the unexpected outflow from the Soviet Union into Europe of people and the opening up of the opportunities for people to leave the Soviet Union.

And as Ambassador Lafontant can well testify, there is a gap between our budgeting process and our setting our consultations for the refugee admissions numbers each year. By the time we came to set those numbers last fall, the situation in the Soviet Union had changed very dramatically. We set, the President set, higher numbers and said, I will have to come back to the Congress for additional funding for that, because the numbers were substantially higher, mainly because of the Soviet Union.

We do not anticipate—obviously, the world could change again, but we do not anticipate such a change in the coming year. When you ask whether $450 million is enough, Senator, let me just be as candid as you have been. When you look around the world at the needs—and Ambassador Lafontant has just come back from an extensive trip to Africa.

When you look at the requirements, you obviously want to be able to do more. There are tremendous needs out there. And then we have to balance those with our budget limitations, our other requirements, and all the rest.

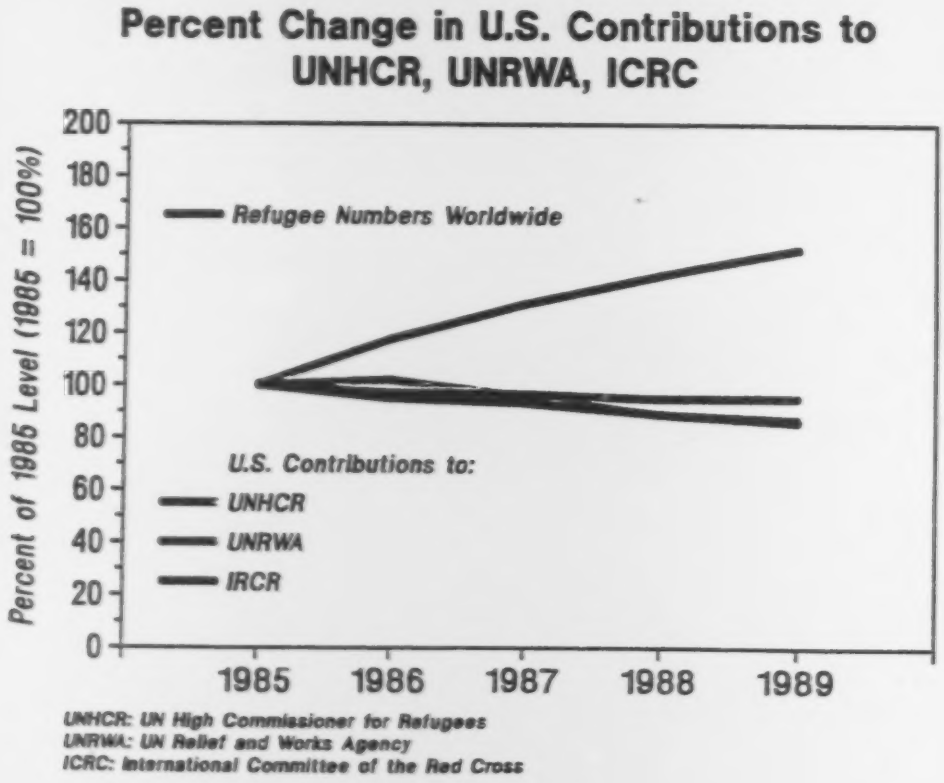
We believe that, with the increase that we are proposing for international assistance in 1991, the $46 million increase on our side, and if other donors will respond accordingly to the increased requirements overseas and we can get some of the improved prioritization in the international agencies, that we should be able to meet the requirements of the refugee community overseas.

Now, there is a lot of if's in all of that, and again one could be faced with unforeseen circumstances. But we think this is an important move by the United States to say, we are increasing our

budget for overseas assistance next year and we look to the other donors to respond similarly.

DROP IN U.S. CONTRIBUTIONS

Senator LEAHY. This chart shows that we have not been increasing our contributions [indicating].



ASSISTANCE SIDE

Ambassador LYMAN. Well, not on the assistance side, Senator. The assistance side is the one that I think we have been particularly short on internationally.

Ambassador LAFONTANT. But may I just add this? May I?

Senator LEAHY. Sure.

Ambassador LAFONTANT. That I think part of our job, in addition to what we are doing, is to sensitize the international community, to go after other donors, including the corporate community, to help pay for some of this. We have suggested to Mr. Stoltenberg, who is our U.N. High Commissioner, that it is time to have professional fundraisers come into play, and he has agreed and they have started on that, which means that the other countries are going to be hit to do more and to share this responsibility with us.

And that is part of our job here, it is to sensitize the international community, help them get the additional funds that are needed.

Senator LEAHY. Well, I think an international fundraising appeal from bake sales to corporations might be a very good idea, but the fact is the United States still has—well, I admit to a certain frus-

tration. I have been hearing this on so many things: We cannot do anything more to help education in this country, we should just go out and try to raise it voluntarily; we cannot help the homeless in this country, we should go out and raise it voluntarily.

I am chairman of the committee that handles all of our nutrition programs, the Senate Agriculture, Nutrition, and Forestry Committee, and I am told we cannot do enough to help there. We cannot do enough to help on the drug problem because individuals should contribute to that, and we cannot do enough on day care as a government because individuals should contribute and to that.

The only thing that we mandatorily have to do, the only thing that we absolutely have to do by law, no matter how much it costs, is bail out the savings and loans. Well, you know, I do not think I want to be a U.S. Senator in the wealthiest, most powerful nation in the world, if our biggest priority as a nation, as a people, as a government—the one inescapable priority for us as a country—is to bail out the savings and loans.

We cannot help refugees, we cannot help the homeless in our own country, education, drug problems, AIDS eradication, on and on and on and on. But by God, we are going to bail out those savings and loans.

Ambassador LAFONTANT. Thank you.

Senator LEAHY. That is not your problem and I am not suggesting it is. But just think. Just think, if you had 10 percent of the interest in the savings and loan bailout for this year alone, you could run one heck of a refugee program for the whole world for the next several years. It is something to think about.

CLOSING OF FIRST PANEL OF WITNESSES

I am going to submit several questions to you, but let me reiterate something. ERMA should not be used for nonemergency uses. It should be kept clear, inviolate, and for emergency uses only. If you need more money, submit a supplemental, do not use ERMA unless it is an emergency.

Ambassador LYMAN. I hear you, Senator. We will. We have really tried to hold that to unforeseen and emergency requirements.

Senator LEAHY. You understand the problem we are going to have up here with CBO.

Ambassador LYMAN. I understand you very well and your point is very well taken.

Senator LEAHY. And UNHCR, will our 1991 contribution go up or down compared with fiscal year 1990?

Ambassador LYMAN. It will be about $110 million, which is about as much as we have planned this year for UNHCR.

Senator LEAHY. Thank you.

And as I said, if we leave it to the two of you, Senator Hatfield and myself unconstrained by others, we might do better. We could tap into the proceeds of just one big failed savings and loan in Texas or California or somewhere, we could do it. But unfortunately, that is not the real world.

I thank you both very much. We will leave the record open for further questions. And also, as I stated before, if you wish to add

something based on the testimony of either Mr. Winter or Mr. Kornavall, feel free to do so. They of course will have the same opportunity.

Ambassador LAFONTANT. Thank you.

Ambassador LYMAN. Thank you.

Senator LEAHY. Thank you for being here.

That trip of yours, Madam Ambassador, sounds fascinating. I am hoping to get to Africa myself this fall at some point. I have not really traveled in Africa and hope to rectify that, perhaps with some other Senators from both sides of the aisle who may also be interested.

Ambassador LAFONTANT. I would like to come in and talk to you about it before you take off.

Senator LEAHY. Thank you. If we set that trip up, I want to chat with you. Thank you.

Ambassador LAFONTANT. Thank you very much.

Senator LEAHY. There will be some additional questions which we will submit to you for your response.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

U.S. CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS

SENATOR LEAHY: I have been informed that U.S. contributions to the UNHCR, UNRWA, and ICRC have declined significantly from fiscal 1989 to fiscal 1990. Is this correct? What are the figures for U.S. contributions to these three organizations for the fiscal years 1986-1990?

AMBASSADOR LYMAN: As shown by the chart below, current U.S. FY 1990 availabilities for UNHCR, UNRWA and ICRC are below final U.S. FY 1989 contributions in both real and relative terms. However, the U.S. FY 1990 figures listed below represent current availabilities only, not the final contributions, and are measured against the organizations' initial appeals, not final expenditures. At the end of 1990 when the expenditures are finalized, the U.S. contribution expressed as a percentage of expenditures may be significantly higher than the percentage listed below.

By the end of FY 1989 several extraordinary measures had been taken to increase U.S. contributions to these organizations in the face of increasing needs. These included drawdowns from the President's Emergency Fund, a Dire Emergency Supplemental for assistance and a last-minute transfer of AID Economic Support Funds to UNHCR. The FY 1990 figures below include only an initial drawdown from the Emergency Fund in response to unforeseen and urgent needs to date in 1990. There is still $24.95 million available in the fund for unforeseen future developments.

Organization	1986	1987	1988	1989 (est.)	1990 (est.)
UNHCR					
Total Expend.	$441.5	$461.4	$545.4	$572.0	$539.4
US Contrib.	$105.5	$105.5	$111.1	$125.8	$108.5
US % of Total	24%	23%	20%	22%	20%
ICRC					
Total Expend.	$185.3	$180.8	$243.6	$237.4	$282.0
US Contrib.	$ 40.2	$ 31.1	$ 30.9	$ 35.3	$ 25.0
US % of Total	22%	17%	13%	15%	9%
UNRWA					
Total Expend.	$186.5	$207.4	$230.8	$227.4	$242.3
US Contrib.	$ 67.0	$ 67.0	$ 63.3	$ 63.3	$ 50.0
US % of Total	36%	32%	27%	27%	21%

SENATOR LEAHY: What is the rationale for decreasing the U.S. contribution to the UNHCR, UNRWA and ICRC, in light of increasing numbers of refugees around the world?

AMBASSADOR LAFONTANT: I would like to deal with the status of our contributions to the three organizations mentioned individually. Generally speaking, however, funds available for U.S. refugee assistance (from which UNHCR, ICRC, and UNRWA are funded, including both the MRA account and ERMA) have not decreased. Rather, they have not increased at the same rate as the number of refugees worldwide or the program levels of UNHCR, ICRC, UNBRO, and UNRWA, the major organizations to which we contribute.

In addition, Congressional earmarking of particular programs outside the funding level requested by the Administration, and for refugee admissions, have required reductions in funding available for other refugee assistance programs in each of FY 1988, 1989, and 1990.

UNHCR: The dollar level of the U.S. contribution to the UNHCR has not varied greatly over the past decade. The ever increasing number of refugees worldwide and some extraordinary opportunities for repatriation, however, have resulted in program increases of UNHCR which, in turn, have caused the percentage U.S. contribution to UNHCR to decrease. Thus, in FY 85, U.S. contributions of $124 million represented 27% of UNHCR expenditures while in FY 89, U.S. contributions of $125.8 million represented only 22% of UNHCR expenditures.

ICRC: U.S. contributions to the total budget of the ICRC have remained relatively constant since 1984 in absolute terms, with the exception of 1985, but have fallen in relative terms as ICRC's total budgetary requirements have risen. These levels of U.S. contributions include measures taken in response to urgent and unforeseen emergencies and, in some cases, opportunities. Actions and programs of the ICRC on behalf of conflict victims are by their very nature unpredictable. It is, therefore, exceedingly difficult to project for purposes of budget requests the actual needs during ICRC's fiscal year. As a result, the Emergency Fund has often been used for ICRC programs. In FY 90, we have drawn on ERMA funds for ICRC programs in Liberia, Panama, and El Salvador.

UNRWA: The U.S. has long been the single largest donor to UNRWA, having maintained our support for that organization at 30% or more throughout the 80's. The drop from $67 million (the U.S. contribution in 1986 and 1987) to $61.3 million from 1987 to 1988 was a direct if only partial result of the need to absorb earmarks on other refugee programs by decreasing unearmarked refugee assistance programs. In that case, and as our percentage has

fallen, other donors have increased their contributions, which has allowed UNRWA to increase the dollar amounts of its program levels and keep pace with increased costs at the same time that our contribution decreased.

PLANNED USE OF THE UNITED STATES EMERGENCY MIGRATION AND REFUGEE ASSISTANCE (ERMA) IN FY 1990

SENATOR LEAHY: In the hearing, you said the Administration plans to use the ERMA to meet urgent refugee assistance needs that cannot be met from the Migration and Refugee Assistance account. Please provide, in detail, your plans to use the ERMA to meet refugee assistance needs in fiscal 1990.

AMBASSADOR LAFONTANT: On March 7, the President authorized the use of $24,950,000 of the $49,829,000 available in FY 1990 from ERMA for the following: (1) $10 million for UNHCR for further implementation of the CPA; (2) $12.45 million to UNHCR for its programs in Africa ($5.25 million for emergency programs in the Horn, $1 million in Angola and Zaire, $1.2 million on behalf of refugees from Liberia, and $5 million for life-support programs in Malawi); (3) $2 million to the International Committee of the Red Cross (ICRC) for its programs in the Horn of Africa; (4) $200,000 to the League of Red Cross and Red Crescent Societies (League) for its programs on behalf of Liberian refugees; and (5) $300,000 to ICRC for its protection, medical and relief programs in El Salvador and Panama.

The remaining $24,879,000 will be used to meet "unexpected urgent refugee and migration needs" when it is determined that it is "important to the national interest" to do so.

The possibility of urgent admissions requirements before the enactment of the FY 1990 MRA supplemental request could require the use of ERMA funds to avoid a serious disruption in the program.

USING THE UNITED STATES EMERGENCY MIGRATION AND REFUGEE ASSISTANCE (ERMA) IN FY 1990 FOR ADMISSIONS

SENATOR LEAHY: Do you have any plans or intention to draw on the ERMA to meet refugee admissions funding requirements in fiscal 1990? If so, please provide a detailed breakdown of such plans.

AMBASSADOR LAFONTANT: The Administration's request for FY 1990 supplemental funds for the Department's refugee programs will finance increased requirements under the admissions program. Although the request seeks the flexibility to use these funds for high priority assistance needs, current estimates

indicate that the full amount is needed for admissions purposes. The current and projected rate of refugee admissions, if maintained, would indicate that the funds now available are not sufficient to continue to finance the program beyond June 1.

In the event funding is exhausted and the movement of refugees to this country is threatened by the lack of financial resources in the Migration and Refugee Assistance account we would have to consider turning to the Emergency Refugee and Migration Assistance Fund for money. Interim financing to continue the admissions program is in everyone's interest. A disruption in the movement of refugees to the U.S. not only would be costly, but would be virtually impossible to make up for later in terms of the reduced number of admissions.

There now is $24.9 million in the Emergency Fund.

INCREASE IN ASSISTANCE FUNDS FOR FISCAL 1990

SENATOR LEAHY: Is it correct that in September 1989 the Bureau for Refugee Programs appealed to State Department management for an increase in refugee assistance funds for fiscal 1990? What was the rationale for such an appeal, and what was the result?

AMBASSADOR LAFONTANT: During last September's internal formulation of the FY 1990 supplemental for the refugee appropriation, there were discussions regarding an increase in funding for refugee assistance requirements, as well as a number of other important resource issues that were not included in the Department's request because of overall budget constraints. Regarding the refugee appropriation, it was the overall consensus within the Department that the ERMA account held sufficient flexibility to meet any unbudgeted urgent assistance requirements that might arise in FY 1990 and, therefore, it was agreed to limit the supplemental package to cover the known shortfalls within the refugee admission program.

SENATOR LEAHY: Several refugee assistance organizations have urged that an additional $50 million be added to the refugee portion of the FY 90 supplemental requested submitted by the President. What is your position on the need for an additional $50 million in refugee assistance on the FY 90 Supplemental?

AMBASSADOR LAFONTANT: I would like to address the question from the standpoint of how we intend to proceed throughout 1990, rather than giving a position on whether more refugee assistance funds could be used. The answer to that question is the

same as the answer to the same question if asked of so many humanitarian assistance programs -- there is always room to use additional funding for refugee assistance. The Administration has not, however, requested supplemental funding for refugee assistance, a decision which was made based on the following strategy for dealing with refugees needs in FY 1990 and FY 1991.

In FY 1990, if the supplemental request for $70 million for refugee admission is enacted soon, we will be able to count on using the entire ERMA fund to respond to refugee assistance needs. At the beginning of the fiscal year, the ERMA balance was $49.6 million. The President has already drawn down $24.95 million for assistance programs of the UNHCR, ICRC, and League of Red Cross and Red Crescent Societies in Africa, Southeast Asia, and Central America. We will propose further drawdowns as needed during the remainder of the fiscal year.

For FY 1991, we have requested $46 million more for refugee assistance than was available in FY 1990, and a $25 million replenishment of ERMA.

SENATOR LEAHY: If $50 million were added to the Migration and Refugee Assistance account for fiscal 1990 in the Supplemental, how would the Refugee Programs Bureau allocate those funds? Would the U.S. contributions to the UNHCR, UNRWA, and ICRC be increased to fiscal 1989 levels?

AMBASSADOR LAFONTANT: When and if a supplemental appropriation were made available, we would review our contribution levels to each of the organizations we fund. We would analyze our position in terms of the steps we have already taken during the year to address various funding crises in these refugee organizations. The additional $50 million would most likely be contributed toward activities of these same organizations, and a small amount of funding might be provided for refugee projects of private voluntary organizations. New refugee situations we face this year would, as usual, be assisted from the ERMA fund. It is both possible and likely that contribution levels would then equal our 1989 contributions to these international refugee organizations.

SCREENING PROCEDURE IN HONG KONG

SENATOR LEAHY: I am sure you saw the article in this Sunday's New York Times entitled "Boat People to Fight Hong Kong in Court." That lawsuit challenges the procedures for screening illegal immigrants from political refugees.

The British Government says the UN High Commissioner for Refugees (UNHCR) can monitor the screening interviews and appeals. But according to the article, UNHCR says it does not have enough staff.

Do you agree that the current screening procedures are inadequate? Do you plan to request the British and Hong Kong authorities to refrain from deporting Vietnamese until the legal issues in that lawsuit have been resolved, or reliable screening procedure are in place?

AMBASSADOR LAFONTANT: The UNHCR reports that, in general, it is satisfied with the screening process in Hong Kong. They have detected some problems but both the Hong Kong Government and UNHCR plan additional training for the screeners.

We believe that the UNHCR should employ the people it estimates are needed in order to properly implement the CPA. The U.S. has already contributed $11.1 million in FY 90 and is in the process of pledging an additional $10 million to the UNHCR appeal for the CPA. We are urging other donors to pledge promptly.

We have already asked British and Hong Kong authorities to refrain from repatriating screened out boat people. We do not believe that the voluntary repatriation program has been given an opportunity to succeed.

FORCED REPATRIATION

SENATOR LEAHY: I understand the Administration has called for a one year moratorium on forced return of Vietnamese. Has that call for a moratorium been linked specifically to the establishment of reliable screening procedures? What are the Administration's specific recommendations to make the screening and appeals procedures reliable?

AMBASSADOR LAFONTANT: Our policy remains to support the UNHCR voluntary repatriation program and to oppose involuntary return of Vietnamese to Vietnam. The safeguards for returnees stipulated in the CPA are not yet fully in place, e.g., complete repatriation counselling, streamlined repatriation applications, adequate reception centers in Vietnam and sufficient UNHCR staff to monitor returnees.

Although we were disappointed by the failure to achieve consensus at the January meeting of the Steering Committee of the Comprehensive Plan of Action (CPA), we also were pleased there was broad agreement on several major issues regarding implementation of the CPA including the importance of preserving the CPA, adhering to first asylum in the region and incorporating safeguards for Vietnamese returnees to Vietnam.

Our hope is that in the coming months all CPA participants will focus on improving and expanding existing arrangements for screening and creating reception-monitoring apparatus in Vietnam that must be in place before large numbers of repatriations can be accommodated. We will fully support host government and UNHCR efforts to accomplish these tasks. We will press for an end to pushoffs within the region.

Currently all major first asylum countries, in cooperation with UNHCR, have implemented screening programs to determine who among the arriving boat people are refugees under international standards.

The U.S. government will continue to fully support UNHCR in its efforts to implement a fair screening process. To date UNHCR has provided extensive guidance and training to all relevant governments to ensure the screening and appeals procedures are reliable. The U.S. has also provided personnel to advise governments on proper screening procedures. Refugee officers in the field will continue to monitor screening and appeals closely.

These efforts can only continue with full international support and funding. To date, the U.S. has committed $11.1 million to the implementation of the CPA out of about $27 million total in donations for a total CPA budget of $108 million. We are in the process of contributing an additional $10 million.

RE-EDUCATION CAMPS

SENATOR LEAHY: A report released this month by Amnesty International says there are frequent reports of torture in police custody and in "re-education" camps in Vietnam. If thousands of Vietnamese are sent back to Vietnam, what procedures would be adequate to ensure they are not mistreated?

AMBASSADOR LAFONTANT: The CPA calls for monitoring of all those returned to Vietnam. One of our reasons for proposing a one year moratorium on the commencement of mandatory repatriations was to allow time for this program to become fully operational. UNHCR now has monitoring in place in Vietnam and plans to expand the numbers as the pace of repatriations increases.

NUMBER OF BOAT PEOPLE

SENATOR LEAHY: Approximately how many Vietnamese boat people have left Vietnam since January 1, 1990?

AMBASSADOR LAFONTANT: Approximately 5,400 Vietnamese boat people arrived in first asylum between January 1 and February 29, 1990. More details are provided in the chart below:

December 1, 1989 - February 28, 1990
Numbers of Vietnamese Arrivals

Country	Numbers of Vietnamese
Hong Kong	1,251
Indonesia	2,059
Malaysia	1,343
Philippines	327
Singapore	-0-
Thailand	2,855
Other	123
TOTAL	7,958

ADJUDICATION

SENATOR LEAHY: You mentioned in your prepared testimony that 1,100 Vietnamese have been "adjudicated as refugees" in Hong Kong. Of these, how many have been granted status on account of satisfying the relevant legal criteria, and how many on account of a close family member who has previously been recognized as a refugee?

AMBASSADOR LAFONTANT: Of the approximately 1,100 screened-in that I mentioned we have the following breakdown: in the first instance approximately 690 were screened-in; about 400 were adverse decisions overturned on appeal and approximately 100 were UNHCR mandated findings of refugee status. I can answer your question only for the first figure, of the 690 first instance screened in, approximately 300 qualified as refugees on their own and some 390 qualified as relatives of a person already resettled elsewhere.

UNHCR COUNSELING

SENATOR LEAHY: You also said UNHCR is "counseling new arrivals" and "monitoring" cases. In Hong Kong, does UNHCR provide individual or only group counseling? Would the Department recommend individual counseling. What percentage of first instance interviews by immigration officers in Hong Kong does UNHCR monitor by having representatives physically present?

AMBASSADOR LAFONTANT: As of January this year, UNHCR has fourteen full time voluntary repatriation counseling teams in the Hong Kong camps. They offer group counseling and then individual counseling to those who express interest. We have expressed to UNHCR and the HKG that these sessions, whether individual or group, convey accurate information on a regular basis, in a non-threatening atmosphere. We

believe that UNHCR is endeavoring to carry out this task to the extent that resources will allow.

The UNHCR has 10 legal consultants who monitor screening interviews and consider cases for mandate refugee determination by the UNHCR. We cannot tell you what percentage of interviews are monitored, but have been told by UNHCR that it has free and unhindered access to all cases.

INFORMATION ON CONDITIONS IN VIETNAM

SENATOR LEAHY: Would the State Department be willing to provide information on conditions in Vietnam to Hong Kong adjudicators? What can be done to further such a recommendation?

AMBASSADOR LAFONTANT: Yes, in fact we have already provided the HKG with the same Country Conditions Report that our INS officers use to adjudicate cases.

INTERPRETERS AND TRANSLATORS

SENATOR LEAHY: What recommendations does the Department have to ensure the quality of the interpreters and translators in Hong Kong so that Vietnamese asylum seekers can effectively present their cases and understand the questions asked?

AMBASSADOR LAFONTANT: The Department recognizes that interpreters play a critical role in ensuring that asylum seekers claims are clearly conveyed. UNHCR shares this concern. UNHCR, in conjunction with the HKG, does conduct training for all interpreters. We understand that UNHCR feels that the quality of translation in the screening process is adequate. In other first asylum countries, UNHCR is working with American private voluntary organizations to identify Vietnamese Americans who might be willing to return to S.E. Asia to assist with translation services. This approach might also be usefully employed in Hong Kong.

APPEALS PROCEDURES

SENATOR LEAHY: What recommendations does the Department have to bring about a meaningful appeals procedure in Hong Kong? In the current procedure, individuals and their counsel cannot be present and no reasons need to be provided for rejecting appeals. Has the Department made recommendations to reform these procedures?

AMBASSADOR LAFONTANT: The British Government is a participant in the Comprehensive Plan of Action (CPA), which covers refugee status determination

procedures (screening) in Hong Kong. Over fifty other countries, including the United States, participate in the CPA. Under the CPA, UNHCR is charged with overseeing refugee screening and has considerable staff in Hong Kong carrying out this essential function. The Department relies on UNHCR to monitor screening closely, to identify any weaknesses, and work with the Hong Kong and British authorities to correct them. UNHCR reports to the United States on implementation of the CPA in all first asylum locations, including Hong Kong, through the multilateral Steering Committee. The Department does not carry on a direct dialogue with Hong Kong on the technical aspects of its screening procedures.

Working with UNHCR, the Hong Kong authorities made significant changes in their screening procedures (begun unilaterally in June 1988) in June 1989. UNHCR reported these changes favorably to the Steering Committee, but did note its dissatisfaction with the lack of an automatic hearing on appeal, and with the fact that UNHCR is not permitted to be present at meetings of the Refugee Status Review Board. In practice, the Review Board has reversed a large number of cases denied at first instance, and UNHCR has also acted to screen-in a significant number of cases denied both at first instance and on appeal under its "mandate" authority. UNHCR has reported it is reviewing Hong Kong screening, and we expect it to take up with the Hong Kong authorities any defects it identifies in the procedures. The Hong Kong authorities have shown a willingness to cooperate with UNHCR on improving screening procedures, and we are confident they will be willing to consider additional measures as necessary.

QUESTIONS SUBMITTED BY SENATOR DANIEL INOUYE

USE OF THE UNITED STATES EMERGENCY MIGRATION AND REFUGEE ASSISTANCE (ERMA) IN FY 1990

SENATOR INOUYE: In your testimony, you mentioned that you would assist Vietnamese Refugees by supporting the Comprehensive Plan of Action with $11.1 million from the ERMA (sic) account. Could you provide any details on your plans to spend the approximately $39 million dollars remaining in the fund?

AMBASSADOR LAFONTANT: First of all, let me clarify that the $11.1 million pledged to the United Nations High Commissioner (UNHCR) for the Comprehensive Plan of Action (CPA), was from funds in the Migration and Refugee Assistance (MRA) appropriation.

On March 7, the President authorized the use of $24,950,000 of the $49,829,000 available in FY 1990 from ERMA for the following: an additional $10 million for UNHCR for further implementation of the CPA,; a U.S. contribution of $12.45 million to UNHCR for its programs in Africa ($5.25 million for emergency programs in the Horn, $1 million in Angola and Zaire, $1.2 million on behalf of refugees from Liberia, and $5 million for life-support programs in Malawi); a U.S. contribution of $2 million to the International Committee of the Red Cross (ICRC) for its programs in the Horn of Africa; a U.S. contribution of $200,000 to the League of Red Cross and Red Crescent Societies (League) for its programs on behalf of Liberian-refugees; and a U.S. contribution of $300,000 to ICRC for its protection, medical and relief programs in El Salvador and Panama.

The remaining $24,879,000 will be used to meet "unexpected urgent refugee and migration needs" when it is determined that it is "important to the national interest" to do so. The possibility of urgent admissions requirements before the enactment of the FY 1990 MRA supplemental request could deplete the remaining balance in the ERMA fund.

FY 1991 REQUEST FOR THE UNITED STATES EMERGENCY MIGRATION AND REFUGEE ASSISTANCE (ERMA) FUND

SENATOR INOUYE: Your FY 91 Congressional Presentation requests $25 million for the ERMA account. Given the demands on the Foreign Aid Budget, how would you replenish the ERMA account without taking funds from the poorest nations in the developing world that can ill-afford a loss of aid?

AMBASSADOR LAFONTANT: The United States Emergency Migration and Refugee Assistance (ERMA) fund is used by the President to meet "unexpected urgent refugee and migration needs" whenever he determines that it is "important in the national interest" to do so (Section 2(c)(1) of the Migration and Refugee Assistance Act of 1962, as amended (the Act, 22, U.S.C. 2601(c)(1). Recognizing the funding constraints in the budget deficit reduction climate, the Administration requested a replenishment of $10 million for FY 1990. The Congress appropriated $50 million for ERMA in FY 1990. On March 7, the President authorized a drawdown of $24,950,000 for unexpected urgent refugee and migration needs in Africa, Southeast Asia and Central America. The Emergency Fund has a balance of $24.9 million.

The Administration's FY 1991 budget request of a replenishment of $25 million for the ERMA account, recognizes the demands on the Foreign Aid Budget. Of the $24.95 million drawn down on March 7, $14.65 million is to meet life sustaining needs of refugees

and displaced persons in Africa, one of the poorest areas in the world.

SENATOR INOUYE: You stated that the policy of voluntary repatriation of Vietnamese refugees should be given more time to see whether or not it will work. With the CPA in danger of collapse, wouldn't it be better for the United States to compromise on the moratorium date for mandatory repatriation instead of seeing rights such as the principle of first asylum lost with the collapse of the CPA?

AMBASSADOR LAFONTANT: Our policy remains to support the UNHCR voluntary repatriation program and to oppose involuntary return of Vietnamese to Vietnam. The safeguards for returnees stipulated in the CPA are not yet fully in place, e.g. complete repatriation counseling, streamlined repatriation applications, adequate reception centers in Vietnam and sufficient UNHCR staff to monitor returnees.

Although we were disappointed by the failure to achieve consensus at the January meeting of the Steering Committee of the Comprehensive Plan of Action (CPA), we also were pleased there was broad agreement on several major issues regarding implementation of the CPA including the importance of preserving the CPA, adhering to first asylum in the region and incorporating safeguards for Vietnamese returnees to Vietnam.

Our hope is that in the coming months all CPA participants will focus on improving and expanding existing arrangements for screening and creating reception-monitoring apparatus in Vietnam that must be in place before large numbers of repatriations can be accommodated. We will fully support host government and UNHCR efforts to accomplish these tasks. We will press for an end to pushoffs within the region.

REFUGEE ASSISTANCE TO ISRAEL

SENATOR INOUYE: Why do you believe that the $25 million in Refugee Assistance for Israel for FY 90 is sufficient given the increasing anti-Semitism in the Soviet Union that is prompting thousands of Soviet Jews to flee the country?

AMBASSADOR LAFONTANT: The U.S. grant to the United Israel Appeal (U.I.A.) represents only a small portion of the funds needed for refugee resettlement in Israel, including persons from the Soviet Union. The U.I.A. raises approximately 70% of the budget of the Jewish Agency for Israel for its programs of absorption of new immigrants. For example, in 1989, the U.I.A. contributed $304 million toward the Jewish

Agency's $414 million budget. World Jewry is currently seeking $600 million over the next three years to help with costs of absorbing Soviet immigrants.

Urgent needs of refugees worldwide, many of whom are in life threatening situations without communities with resources to relieve their conditions or without the opportunity to resettle elsewhere, place heavy demands on the State Department's Refugee Budget in support of programs of special concern to the U.S. in other parts of the world. For these reasons, we believe that the current grant level is an appropriate contribution from the U.S. government toward refugee resettlement in Israel.

Our request for FY 1991 includes an increase of $5 million for the U.I.A., for a total of $30 million.

QUESTIONS SUBMITTED BY SENATOR ROBERT KASTEN

HONG KONG DETENTION CENTERS

SENATOR KASTEN: The conditions in Hong Kong detention centers are appalling.

What steps are we taking to improve camp conditions in terms of housing, sanitation, and policing. Is the U.S. position on a moratorium linked to improvements in the camps? If not, why not?

AMBASSADOR LAFONTANT: We agree that conditions in the Hong Kong camps need improvement. We have repeatedly discussed existing problems with British and Hong Kong authorities. They report that most of the problems are caused by 1989's unexpected flood of arrivals, resulting in a shortage of space to adequately house them. The construction of a new reception facility at Tai Au Chau should help ease that burden. The U.S. is investigating providing an in-kind contribution of materials to help with the construction of the new facility. In addition, the U.S. has contributed $11.1 million to the UNHCR for CPA purposes and will shortly pledge an additional $10.0 million.

Our position on the one year moratorium is not tied to improvements in Hong Kong camp conditions. We do not believe that there is any useful connection between conditions in the camps and a possible commencement of mandatory repatriation of screened out boat people to Vietnam. All CPA participants, including the HKG, are committed to provide arriving asylum seekers with humane care. We will continue to remind the UK and HKG of this commitment at every opportunity.

REFUGEES IN THE PHILIPPINES

SENATOR KASTEN: As you know, hundreds of Southeast Asian refugees are being filtered through the Philippines. How are these refugees faring? Do they receive better treatment in the Philippines than they do in Hong Kong? What costs have there been to the Philippine government and to the International community serving these people?

AMBASSADOR LYMAN: The Philippines continues to set an outstanding example in Southeast Asia for the maintenance of first asylum.

The Refugee Processing Center in Bataan allows for the orderly processing and training of about 25,000 U.S.-bound refugees each year. Billeting at Bataan is far superior to housing elsewhere in the region. There is ample water and each billet has electricity. Health services at the Bataan hospital and associated clinics are well-monitored and deemed satisfactory. The diet is nutritionally balanced and adequate to maintain the health of the refugees. The security system at Bataan is quite elaborate and generally effective. There are guards at the camp perimeter, contract guards within the camp and neighborhood patrols consisting of refugees and Filipino social workers.

The Bataan camp, Palawan first asylum camp, and the airport transit camp (the Philippines three refugee installations) are funded by international donations to UNHCR. Various private groups contribute to specific programs including educational programs. UNHCR operating costs for the camps is about $6.5 million dollars per year.

U.S. TREATMENT OF REFUGEES

SENATOR KASTEN: Hong Kong and British authorities claim they are only doing what we do to Haitian and Mexican refugees every day. Please distinguish for us some differences between British forced repatriation of Vietnamese and our treatment of Haitian and Mexican refugees.

AMBASSADOR LAFONTANT: There are very important differences. First, we deport people to countries that will accept their return. Vietnam has stated it will only receive persons who voluntarily seek to return. We have a special agreement with Haiti regarding the return of their citizens who seek to enter the U.S. illegally.

Second, no country in Central America or the Caribbean is like Vietnam. We believe forced repatriation of Vietnamese against their will could result in significant human rights abuses.

Third, Mexico is not a country which generates refugees. Mexican citizens may wish to enter the U.S. to improve their economic standing but virtually none make any claim to being persecuted for political or other reasons.

NONDEPARTMENTAL WITNESSES

STATEMENT OF ROGER WINTER, DIRECTOR, U.S. COMMITTEE FOR REFUGEES

Senator LEAHY. Our next witnesses are Roger Winter, the director of the U.S. Committee for Refugees, and Christian Kornavall, the director of finance for the International Committee of the Red Cross.

If you both could join us up here at the table. I might say, Mr. Kornavall, you have traveled a little bit further than our witnesses normally do. I do appreciate you taking the time to come over here from Geneva, especially on such short notice. If you feel as I do about transoceanic flights, you are probably not overjoyed by it, but I appreciate your coming here.

Mr. KORNAVALL. Thank you.

Senator LEAHY. Dr. Winter, why do we not start with you, sir.

SUMMARY STATEMENT

Mr. WINTER. Thank you very much.

I will just try to highlight a couple of points as it is obvious from your questions, as well as from the discussion that just preceded us, that you know an awful lot about this subject. I am very pleased with that.

According to an April 4, 1990, statement of the U.S. Department of State:

> A reasonable estimate of the resources the U.S. spends on behalf of each refugee admitted to the United States for resettlement is $7,000. The grand total is just over $2 billion in Federal funds for resettling refugees in the United States during the 3-year period fiscal year 1988 to fiscal year 1990. This expense is to a large extent a tradeoff with U.S. assistance to 15 million refugees in place worldwide.

Mr. Chairman, the U.S. Committee for Refugees is a lead advocate for generous resettlement to the United States. Nothing is going to change that. We believe resettlement is good for the United States and, as was pointed out by the last panel, it is often the only solution for a select number of refugees.

My problem this afternoon, Mr. Chairman, is with what the State Department has called a tradeoff. It is a word I had hoped never to see from our Government when it came to discussing how we deal with refugees. My comments today are focused on those refugees the State Department suggests were the losers in the tradeoff, those refugees and displaced people overseas who will never be resettled in the United States, who overwhelmingly seek only to survive with a little bit of dignity and security until they can return home.

Mr. Chairman, it is the case that there has been a trend in both U.S. support and international support dealing with refugees overseas. That trend has been downwards. It is not, as we just heard, a

1-year phenomenon related solely to the availability of Soviets for resettlement in the United States this current year or last year.

There is a trend that has occurred over a period of 5 or 6, even 7 or 8 years. It is a trend which is leading to a resource-starved system for dealing with refugees and displaced people. It involves not only the U.N. High Commissioner for Refugees, but also the International Committee for the Red Cross, for whom there is no equal when it comes to working with internally displaced people. It includes UNRWA working with Palestine refugees. It includes even the World Food Program.

In every one of these organizations, U.S. support has been on the downward track over a substantial period of years. Dealing just with UNHCR, it is the case that this resource-starved agency is changing the quality of care dramatically for refugees overseas. It is the case that all educational programs for refugee children in Africa, and in Asia, are being ended—all.

And inasmuch as some of these children are in asylum for periods of years and years, the absolute unavailability of resources for this kind of thing has a dramatic impact over time. You yourself mentioned the increasing rates of malnutrition. We are seeing pellagra, scurvy, diseases that we used to read about in high school as being on ships in the 1600's for sailors who had no access to fresh food.

These are the kinds of things we are seeing today for refugees and displaced people around the world. Essentially what is happening is this resource-starved system is reverting to simple, very basic warehousing of refugees. And last week the U.N. High Commissioner announced a further 20-percent staff reduction, including field cuts of a substantial nature around the world.

The cuts that you yourself spoke of and that this chart shows very well are, we believe, the result of very cynical targeting by the Office of Management and Budget, and in fact some, not necessarily the panelists who were here, but some within the U.S. Department of State, who believe, for whatever reason, that the refugees who are overseas, whether they are Somali refugees in eastern Ethiopia or Mozambicans in Malawi, refugees from Burma that are in Thailand, that people like this are essentially voiceless, and in a highly political budget environment where resources are exceedingly tight, voiceless people lose out.

And that is why we turn to people like you, Mr. Chairman, and others in the Congress. Notwithstanding the fact that there is a change in the geopolitics of the world and things seem to be getting better, refugee numbers continue to increase and so do the numbers of internally displaced people.

In that the system for dealing with them is resource starved, in that emergencies continue to develop, there is no question that the quality of response that we are able to make has been deteriorating rapidly.

But there is a bright spot to the change in the geopolitics, because now more than ever we face the possibility of refugees who have been spawned by these regional disputes that are part of the overall geopolitical confrontation, that these people may begin to be able to go home. In the refugee field, it is our fondest hope that massive repatriation to Afghanistan, to Angola, to Ethiopia, to So-

malia, to Sudan, to Mozambique, to lots of other places, Nicaragua and others, will be able to come about.

But frankly, Mr. Chairman, the money to support even these repatriations, which would be a great and good thing for refugees, simply is not there the way it is being budgeted by the administration. And I can tell you, if you put multimillions of very desperate people in motion, seeking to repatriate to an area, their home country or part of the country from which they have been displaced, which has had its infrastructure destroyed, you have a new kind of emergency. Not a refugee emergency, you have a repatriation emergency, because these kinds of things, as Namibia has just showed us, are very, very costly if you are to avoid loss of life.

We suggest, Mr. Chairman, because the U.S. support for all of these international humanitarian agencies has been dropping like a rock through the eighties, that we take a look at establishing some basic standards for what the U.S. share of these kinds of programs of these institutions should be. Fundamentally, what we suggest is that in budgeting for 1991 we try to utilize a formula that provides $25 per capita per refugee in the world.

That is an attempt to get us back to where we were in 1984–85, before that downward trek started. We would like to go back to what we think was a good standard.

PREPARED STATEMENT

We also suggest that in no case should U.S. support of these four international humanitarian organizations—UNHCR, the World Food Program, ICRC or UNRWA—drop below 25 percent. It simply is not saying too much, given the fact that we are who are in this international community, with the geopolitics of the world abating, it gives us a chance not just to be part of the struggle that has occurred, which to some degree has precipitated these refugees and displaced people; it gives us a chance to be part of the healing.

This is the part of the budget we ask you to support very strongly in 1991, the healing for the victims of the past.

Thank you very much.

Senator LEAHY. Thank you very much.

[The statement follows:]

STATEMENT OF ROGER P. WINTER

Thank you, Mr. Chairman, for the opportunity to present to the Subcommittee on Foreign Operations the views of the U.S. Committee for Refugees, a program of the American Council for Nationalities Service.

According to an April 4, 1990 statement of the U.S. Department of State, a "reasonable estimate" of the resources the U.S. spends on behalf of each refugee admitted to the U.S. for resettlement is $7,000. "The grand total is just over two billion dollars" in federal funds for resettling refugees in the United States during the three-year period of FY 88-90. "This expense is to a large extent a trade-off with U.S. assistance to 15 million refugees in place worldwide."

Mr. Chairman, the U.S. Committee for Refugees is a leading advocate for generous resettlement to the United States. We believe resettlement is good for this country and is often the only solution for a select number of refugees.

My problem this afternoon, Mr. Chairman, is with what the State Department has called "a trade off," a word I had hoped never to see from our government in the refugee context. My comments today, therefore, are focused on those the State Department suggests were the losers in the trade-off, those refugees and displaced people overseas who will never be resettled in the United States, who overwhelmingly seek only to survive with a bit of dignity and security until they can return home safely.

On their behalf, I hope in this brief testimony to make three points:

(1) Programs of the international humanitarian organizations that assist refugees and displaced people overseas, more than 60 percent of whom are children, have been crippled by massive funding shortfalls with major implications for refugee health and survival. Refugee children, being the most physically vulnerable of all refugees, are the most at risk from these cuts. While refugee numbers worldwide increased by 50 percent in the last five years, from 10 million in 1985 to 15 million in 1989, the United Nations High Commissioner for Refugees' budget increased by only 25 percent. As a result, critical services have been cut back in refugee camps throughout the world, malnutrition and mortality are on the rise, and many programs designed to assist refugee children, to preserve their opportunity to have a meaningful future, have been curtailed. For example UNHCR has just taken steps to eliminate all its education programs for refugee children in Africa and Southeast Aisa. The new UN High Commissioner for Refugees has publicly and with passionate dignity pronounced that he cannot fulfill his mandate to protect refugees under these conditions. Because of resource limitations, several days ago he was forced to announce a further 20% reduction in UNHCR staffing, including critical cuts at the field level. UNHCR is being permanently mutilated, with a resulting terrible impact on refugees.

(2) The United States, while generous in its support of international humanitarian organizations, has allowed its share of support for UNHCR, the International Committee of the Red Cross, the World Food Program, and the United Nations Relief and Works Agency to drop steadily for much of the 1980s. For example, in 1985 the United States contributed 27 percent of the UNHCR budget, but only 22 percent in 1989. More importantly, the U.S. Migration and Refugee Assistance budget, which in 1985 provided $20 per refugee annually, now funds just over half of that amount.

(3) The United States should respond with a minimal of $50 million more than is currently available for FY 1990 for overseas assistance to refugees and internally displaced people. Congress has actually approved an additional $25 million. Because these funds are being appropriated to the Emergency Refugee and Migration Assistance fund, it is critical that Congress assert its intention that the funds be used this year. The FY 1991 budget for refugee assistance, moreover, should meaningfully reverse the pattern of the last few years and meet both of two critical benchmarks. First, U.S. contributions for refugees overseas should not fall below $25 per refugee. In addition, the U.S. share of operating budgets for UNHCR and other international humanitarian organizations should not be allowed to fall below 25 percent. Meeting these benchmarks will go a long way to putting UNHCR and its colleague agencies in a position to avoid the worst effects of inadequate funding on refugees, but also position it to maximize the possibilities for voluntary repatriation of refugees now surfacing as a result of the abatement of geopolitical confrontation in many regions of the world.

Mr. Chairman, before I proceed with a more detailed discussion of these issues, I would like to acknowledge your leadership and your commitment through the years to the cause of assisting some of the world's most vulnerable populations. Both the Chairman and the Ranking Minority Member of this Subcommittee in a letter to President Bush on January 22, 1990 clearly stated that the overseas "refugee assistance portion of the budget faces a $50 million shortfall" in FY 1990 and asked the Administration to show the necessary leadership in remedying both this and the admissions budget shortfall. However, no Administration request for overseas assistance was forthcoming.

I also recall very clearly the words of the Senate Committee on Appropriations in its report on the Foreign Operations budget for FY 1990:

> "Given the extraordinary needs of refugees around the world, the Commttee believes the Administration's fiscal year 1990 request is entirely inadequate.... It is convinced that another supplemental for [migration and refugee assistance] will be necessary in fiscal 1990.... This is poor budget planning. The Committee believes that these unrealistic requests for the Migration and Refugee account cannot continue.... The Committee strongly urges the administration to respond realistically to refugee needs around the world by submitting an adequate migration and refugee assistance budget request for fiscal year 1991."

The Problem

For many years, in fact decades, the United States has been the largest contributor to international assistance for refugees and displaced people. On a total--though not per-capita--basis, it still is, as would be expected given

our nation's size and wealth and the values of our people. However, for most of the 1980s, while the numbers of refugees and displaced people in the world have grown dramatically, the U.S. share of support for the UN High Commissioner for Refugees (UNHCR), the International Committee of the Red Cross (ICRC), the UN Relief and Works Agency (UNRWA), and the World Food Program (WFP) has diminished, in some cases dramatically. Some other governments have increased their share of contributions during this period, while others have decreased. All must continually be pressed to increase their participation. However, the sad truth is that total contributions worldwide to these agencies have not kept pace with the explosion of growth in need, much of which materialized during the 1980s as a byproduct of geopolitical confrontation in regional conflicts.

As a result of these trends, there has been dramatic impact on all of these institutions and the uprooted people worldwide who are dependent on them for protection and assistance--even survival. But because of who refugees are, women and children are feeling the greatest impact:

- From 150,000 to 225,000 refugee children between the ages of 1 and 5 are suffering from acute malnutrition. "All of these children need nutritional rehabilitation," according to an internal UNHCR memorandum. "All are in danger of death from malnutrition or subsequent infectious diseases. Unfortunately this past year it appears the number of malnourished children is rising."

- "The underlying cause of the problem," the UNHCR memo continues, "is simple but dramatic: a lack of food resources to cover the minimal components of the basic ration, namely: cereals, beans and oil....[UNHCR] has had no possibility of cushioning ration cuts by using cash resources.... In the last years, the nutritional status of refugee children has been slipping in Africa and Middle Asia...and in some countries malnutrition rates among refugee children reach 30 percent.... Famine levels range from 20-30 percent, so that any survey that shows more than 10 percent malnutrition is cause for alarm." Outbreaks of scurvy, pellagra and other nutrition-related diseases in some refugee camps are evident.

- Half the population of Fugnido camp for Sudanese refugees in western Ethiopia consists of unaccompanied minors, generally recognized as the most vulnerable of refugee children. Most of these 18,000 minors are boys under the age of 16. This is perhaps the largest group of unaccompanied children UNHCR has ever served. Nutrition and medical services for these children have been seriously reduced.

- The majority of refugee children have no access to primary education at all. Attempts to improve on this have been essentially suspended. Budget shortfalls have decimated educational programs for refugee children throughout Africa; schooling for Sudanese and Somali refugee children in Ethiopia is crippled by a lack of teaching materials and classrooms.

- Forty percent of the 140,000 Cambodian refugees in Site 2 camp on the Thai-Cambodian border are under the age of 8. Primary-level education is all that is available. Only 25 percent of school-aged children attend any school at all.

- Nearly 15,000 Vietnamese refugee children in Hong Kong are living in unconscionably crowded and unsanitary detention centers, and many are suffering from malnutrition and major health problems.

- Important new UNHCR guidelines for providing care and protection to unaccompanied minors in Southeast Asia, which have been years in the making, cannot be implemented due to a lack of resources.

Mr. Chairman, I have been in most of these camps. I have seen what is happening. These tragic deficiencies are not only destroying young lives right now but, for those fortunate enough to survive, will cause major damage for years to come. While many factors conspire to make the lives of refugee children more vulnerable, all of the above problems could be resolved, or substantially ameliorated, through the addition of resources.

There are many other examples worldwide, and all the other organizations I have listed also have serious shortfalls, but let me again focus for a moment on one pivotal organization, the UN High Commissioner for Refugees. UNHCR is responsible to all of us for the protection and care of the world's 15 million refugees, but right now it is a crippled agency facing the worst financial crisis in its history, caused by steadily rising refugee populations and the fact that donor contributions have not risen fast enough to keep pace with the increase in numbers. These trends came to a head in 1989.

In October 1988, the Executive Committee of governments that oversee UNHCR's operations approved an initial 1989 budget for UNHCR of $429 million. It soon became clear that newly emerging needs, primarily in Ethiopia and Southeast Asia, could result in as much as a 10 percent increase in necessary expenditures. These unanticipated needs included such things as responding to the rapidly deteriorating health and nutritional situation and subsequent explosion in death rates (as high as 3,000 per month, of which most were children) that were occurring in Somali refugee camps in Ethiopia.

It also became clear in early 1989 that donor governments, including the United States, not only were <u>not</u> going to come up with adequate funds to meet the emerging new needs, but they were not even going to come close to covering the $429 million budget initially approved.

While protesting that critical needs of refugees would go unaddressed, UNHCR was required to reduce its 1989 expenditure target to $389 million, with $40 million of that figure unfunded and carried over into 1990 to be paid from 1990 contributions, thus heavily mortgaging UNHCR's future and that of

refugees. Some $38 million in program cuts were then undertaken beginning last summer.

UNHCR's financial situation has gotten still worse. In November 1989, UNHCR projected worldwide budget needs totalling $414 million. Donor pledges for the first six months of 1990 programming totalled only $190 million, of which $40 million went to cover deficits carried over from 1989. All program reserves have been eliminated. The worldwide budgets for food and water have been cut by 25 percent, sanitation by over 30 percent, shelter and infrastructure by 35 percent. One official assessment shows just what these cutbacks mean:

- Reduced buffer stocks of emergency items in some countries mean inadequate supplies of the essentials if new arrivals surge or if logistics or weather result in stalled deliveries.
- Health projects are being adversely affected; maternal and child health programs are being scaled back; some other medical services are being eliminated.
- Less water, or poorer quality water, is now all that is available to some locations.
- New school construction essentially eliminated.
- Repair and maintenance of buildings, roads, vehicles, etc. have been dramatically reduced.
- Investment in income-generating projects has been reduced; there will clearly be fewer means of helping refugee families to become self-sufficient.

Even as recently as last week the UN High Commissioner announced further reductions. These included the elimination of 20% of positions before the end of 1990, effectively bringing UNHCR back to 1985 levels; the elimination of educational programs for refugee children in Africa and Southeast Asia; the reduction of the frequently life-saving Technical Support Services (TSS) unit by two-thirds; the essential elimination of all investment in so-called durable solutions. This latter reduction will negatively affect UNHCR's ability to make voluntary repatriation successful, just at a time when large-scale voluntary repatriation is becoming possible in may of the regional conflicts around the globe. Even UNHCR's ability to respond to refugee emergencies, developed painfully after the "We are the World" crisis in the Horn of Africa in 1984-5 is being crippled.

Mr. Chairman, the erosion or elimination of nutrition, sanitation, medical, and educational services in refugee camps throughout the Third World

is mortally dangerous. Fundamental survival needs of refugees are not being met now; the situation is clearly deteriorating. Unless something is done now, 1990 and 1991 will be hell for too many refugees around the world, simply based on inadequate resources. No wonder the new UN High Commissioner for Refugees, who assumed his position on January 15, has been forced to go public, exclaiming, "I can't fulfill my mandate. Levels of care are falling. I have only half the resources per refugee today that we had in 1980."

Let me be clear, the cumulative effect of the financial and population trends on UNHCR, together with pressure by many governments to dramatically restrict UNHCR's role to one of minimal care and maintenance--warehousing--of refugees in the third world and inadequate action by the U.S. to protect UNHCR's critical functions, is mutilating the institution.

Mutilation of refugees and loss of refugee life is the inevitable result.

The United States is a Key Factor

I am not suggesting that the United States is uniquely the problem here. The U.S. approach to these issues is clearly among the most generous in the world. It is also clear, however, that U.S. funding practices during the last few years relate directly to the funding crisis at UNHCR and major shortfalls at the other agencies. The overall U.S. budget, as you well know, is exceedingly tight and will remain so unless major political change is forthcoming; new needs have arisen and commitments have been made; the refugees we are discussing suffer--without a strong constituency--out of sight and out of mind.

Most U.S. support for refugees is included in the State Department's Migration and Refugee Assistance (MRA) account, although resources from AID, the Emergency Refugee and Migration Assistance (ERMA) fund, and other accounts can be brought to bear to some degree and under certain circumstances.

In 1985, the worldwide refugee population was just over 10 million people. By 1989, the number had increased by 50 percent to 15 million (see Table A). In this same period, the line-item in the MRA budget for refugee assistance shrank from $204.4 million to $168.7 million. On a per-capita basis, unadjusted for inflation, the State Department's MRA refugee assistance budget provided $20 per refugee in 1985 and only about $12 per refugee in 1989.

It is hardly surprising then that U.S. contributions to UNHCR, UNRWA, ICRC, and the World Food Program, as a percentage of total budgets for these organizations, has declined dramatically (see Table B).

U.S. support for UNHCR was as high as 30 percent of total expenditures in 1982, even higher before the 80s. From 1985 to 1989, the U.S. share dropped from 27 percent to approximately 22 percent. Thus, the United States was supporting less of UNHCR even as UNHCR resources, on a per-capita basis, were declining. While UNHCR's caseload was increasing by 50 percent, the U.S. contribution to UNHCR grew by only 2.3 percent.

U.S. support for UNRWA dropped from 40 to 27 percent of total expenditures from 1985-1989. For ICRC, U.S. support dropped from 30 to 15 percent of total expenditures from 1985 to 1988, almost writing off this critical agency that often is alone in serving internally displaced people, especially in Africa. In the early 1980s, U.S. support for ICRC was as high as 40 percent of total expenditures. The World Food Program has seen U.S. support for its programs decrease from 28 percent to less than 23 percent from 1985 to 1989.

Mr. Chairman, despite the real commitment to refugee assistance within some sectors of the Administration, we believe that for a number of years, the Office of Management and Budget and some in the Department of State have been systematically and cynically targeting the overseas refugee assistance account for cutbacks on the assumption that it has no strong constituency to work in its defense. Our only hope and that of the refugees is the Congress.

Refugee Assistance Needs in 1990

The failure of the international community to fund UNHCR budget needs in full--as well as those of other international humanitarian organizations--is sapping the institution's strength and resources. It reached crisis proportions last year, continuing into this year. At the field level, staff don't even ask for resources to meet real needs because they know the funds are not available. As this process plays out, the most vulnerable refugees, often at the edges of the response system, away from TV cameras, begin to suffer immensely or to die. Then, when a substantial new problem arises--an increase in numbers or a drop in funding--there is no reserve capability to employ in response.

Refugee emergencies are happening constantly. It's the name of the game. Among the many urgent unanticipated needs and opportunities that require a response already in 1990 are the following:

* Conflict in Liberia has resulted in more than 150,000 refugees fleeing to the Ivory Coast and Guinea since the beginning of 1990.

* The first of what could be a very torrent of people have left northern Ethiopia and entered Sudan in flight from the conflict and impending famine.

* In southern Sudan, the town of Juba with 250,000 residents is under siege. More refugees have fled the fierce fighting there and entered Uganda. The Sudanese refugee camp at Asosa in Ethiopia has been destroyed.

* An unanticipated influx of 70,000 Vietnamese refugees in Southeast Asia has overstrained camp services and accelerated the demand for implementation of the costly Comprehensive Plan of Action ratified by 76 nations, including the United States last June in Geneva.

* More than 18,000 Burmese refugees have spilled across the border into Thailand since the beginning of the year, fleeing from Burmese army attacks on ethnic minority groups and pro-democracy activists. They are in desperate need of international aid and protection.

* Prospects exist in 1990 for the repatriation of refugees from Nicaragua, South Africa, Ethiopia, El Salvador, and possibly Mozambique and Cambodia. Safe repatriation is the best permanent solution for refugees. Should these opportunities arise, money must be available to help them get home or a "repatriation emergency" will result. UNHCR special appeals for repatriation funds in 1989 were underfunded by more than $22 million. Even in the high profile case of Namibia, UNHCR has run out of funds to repatriate Namibian refugees, stranding many who would like to return.

There are, moreover, five months left in the fiscal year, and new needs and opportunities undoubtedly will present themselves. If ERMA funds are fully obligated for urgent and unforeseen needs, as they are supposed to, then there are no resources available to restore basic level services in refugee camps throughout the Third World. When dealing at this level of human vulnerability, the United States should not have to choose whether to do one or the other. Other governments are now starting to recognize their own responsibilities in this regard.

The United States should be supporting overseas refugee assistance at a level which both remedies the systemic failure that has set in, and provides the needed resources to respond to unanticipated emergencies, including substantial but costly repatriation we hope will occur with the geopolitical thaw.

To restore FY 90 U.S. contributions to UNHCR, UNRWA, and ICRC just to FY 89 levels, and in so doing at least partially restore the across-the-board cuts in essential services, will require an additional $50 million.

The Administration requested no supplemental appropriation to address this clear need, either through the Migration and Refugee Assistance account or through the Emergency Migration and Refugee Assistance fund. Despite this inaction, the Congress has responded by replenishing ERMA with an additional $25 million, an important step in the right direction, though I personally believe more should be done. It may not be politic to "beat a dead horse" but, where I come from, you don't let vulnerable refugees and displaced people die preventable deaths without doing all you can to force a different outcome.

The 1991 Budget

In addition to meeting emergent 1990 needs, the United States should meaningfully reverse its pattern of diminishing support for these international humanitarian institutions. The President's 1991 budget for overseas refugee assistance is a very modest step in the right direction. I say modest because his request essentially only returns us to the 1989 level of Migration and Refugee Assistance support, without even accounting for inflation or the increased refugee population worldwide. But 1989 was a disastrous year in terms of refugee funding. Frankly we need to do better.

I propose that the U.S. establish a goal that would permit us to lead the world back to adequate support for the world's refugees. We can do this by setting, and meeting, both of two benchmarks in refugee assistance. First, we should ensure that U.S. Migration and Refugee Assistance contributions for refugees overseas do not fall below $25 per refugee. Second, the U.S. share of UNHCR expenditures and those of other international humanitarian agencies should not fall below 25 percent. These figures would of course need to be adjusted periodically for inflation.

In 1985, the State Department's Migration and Refugee Assistance budget provided about $200 million to serve 10 million refugees worldwide, or about $20 per refugee. To maintain that level today, adjusting for inflation, would require about $25 per refugee. In fact, the refugee assistance budget now provides only about $12 per capita.

Twenty-five dollars times 15 million refugees comes to $375 million, whereas overseas assistance is only budgeted in the President's 1991 budget at $215 million. Effectively, the gap for 1991 is $160 million, assuming the

worldwide refugee population remained constant. Accepting the Administration's projections for needs related to resettlement, I, therefore, encourage you to consider an FY 1991 MRA appropriation of $610 million for both admissions and overseas assistance, with full replenishment of ERMA. This will get us to the place where ERMA can again be an Emergency Fund, as originally intended, and not used for ongoing services.

Mr. Chairman, in closing, I would like to focus on the abatement of geopolitical conflict in our world and its implications for refugees. Most of the refugees we see throughout the world today have fled from civil wars connected to the ideological struggle between the U.S. and the USSR that has gripped the world these last 40 years. That struggle is abating. But the victims of those wars are still hurting and should not be neglected. We should be prepared to spend as much for the healing as we did in the struggle itself.

One candidate for a peace dividend, therefore, must be an augmented refugee assistance budget. Providing additional funding--a Going Home Fund--for large-scale repatriation which can itself become a massive emergency if not properly funded, and drawing it from scaled-down defense spending, would clearly signal United States resolve to help those who have been hurt in regional conflicts.

It seems to me that the objective of the U.S. in regard to the 1991 budget should be (1) to meaningfully reverse the downward trend in assistance funding for refugees in first asylum and thus to reverse American decline in leadership in this crucial arena of foreign aid; and (2) to assure that funds are available to permit large-scale voluntary refugee repatriations should the opportunities arise.

Mr. Chairman, what better way to signal to the Soviets and to the world our intentions to proceed with regional conflict resolution, than to provide for those who have suffered for the past decade in first asylum? I ask you and your colleagues in the House and Senate to introduce this line of reasoning to the forthcoming debates on the 1991 budget.

Thank you.

Table A

Year	Number of Refugees Worldwide*	U.S. Migration and Refugee Assistance Budgets (in millions) Admissions	Overseas Assistance	Total**
1985	10.1 million	$103.2 actual	204.4	350.3
1986	11.7 million	105.3 actual	189.7	324.4
1987	13.3 million	108.7 actual	194.7	346.9
1988	14.4 million	119.5 actual	176.2	338.5
1989	15.1 million	225.0 actual	188.3	462.0
1990	N/A	226.0 estimated***	168.7	368.4

Percent of Change, 1985-1989

In Number of Refugees	In Admissions	In Overseas Assistance	In Total Expenditure
50% increase	118% increase	7% increase	32% increase

* Source: U.S. Committee for Refugees

** Total also includes budget line-items for refugees to Israel, other international organizations, and administration.

*** Includes $70 million supplemental sought by the Adminstration, and passed by both the House and Senate.

TABLE B

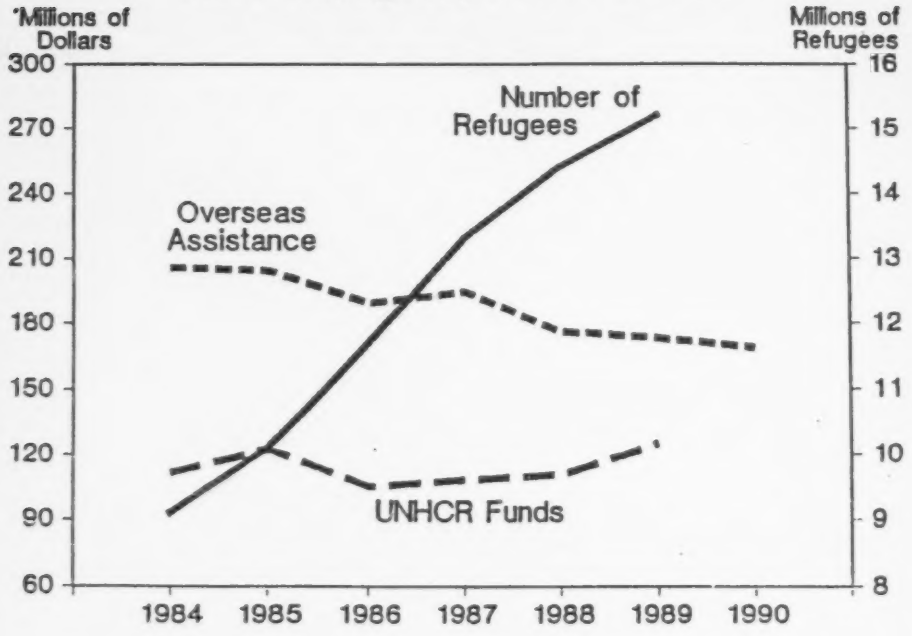
Percent of U.S. Support for International Humanitarian Agency Expenditures

	UNHCR	UNRWA	WFP(all purposes)*	ICRC
1984	25.15%	35.02%	33 (1983/1984)	29%
1985	26.77	40.02	28 (1985/1986)	30
1986	23.86	35.92	28 (1985/1986)	26
1987	23.56	33.45	22 (1987/1988)	21
1988	21.78	29.08	22 (1987/1988)	15
1989 est.	21.89	26.96	23 or less (1989/1990)	NA

*World Food Program operates on a two-year budget.

TABLE C

More Refugees, Fewer Dollars



Overseas assistance funds from U.S. Migration & Refugee Account.
Source: House Select Committee on Hunger

[Reprint of the U.S. Committee for Refugees, From the New York Times, International, Mar. 18, 1990]

U.N. Aide Fears Help for Refugees Will Fall Short

(By Paul Lewis)

GENEVA — The number of refugees in the world has doubled in the last decade, but the international organization charged with caring for them is facing a growing financial crisis.

Thorvald Stoltenberg, the former Norwegian Foreign Minister who took over as the United Nations High Commissioner for Refugees three months ago, estimates that he will need more than $700 million this year to look after the world's 15 million refugees. But he anticipates no more than $550 million from countries with financial constraints of their own.

"I can't fulfill my mandate," he said in a recent interview at his headquarters here. "Levels of care are falling. I have only half the resources per refugee today that we had in 1980."

Others share Mr. Stoltenberg's concern. Roger P. Winter, Director of the United States Committee for Refugees, told the House Committee on Hunger last month that the number of refugees rose 50 percent in the last five years but that the United Nations refugee agency's budget increased only 25 percent, while the United States' share fell to 22 percent from 27 percent. "As a result critical services have been cut back in refugee camps throughout the world," Mr. Winter told the House.

While Mr. Stoltenberg's predecessor, Jean-Pierre Hocké, had a reputation as an abrasive manager who got personally involved in day-to-day refugee operations, Mr. Stoltenberg says he plans a different approach.

Day-to-day management will be left to Douglas Stafford, the new American Deputy High Commissioner. Mr. Stoltenberg says this arrangement will leave him free to seek money and what he calls "political solutions."

The number of refugees in the world climbed from about 7 million in 1980 to about 10 million by 1985 before reaching 15 million today, largely as a result of continuing civil strife in Africa, Central America, Afghanistan and Cambodia and the exodus of boat people from Vietnam. An insurrection in Liberia earlier this year sent 120,000 more refugees into the Ivory Coast and onto the High Commissioner's books.

Reserve Fund Exhausted

As the refugee crisis has grown, the High Commissioner's budget has risen, but never by enough to meet the new claims being made on it. The agency gradually drew on a reserve of about $85 million.

By 1988 this fund was exhausted. The High Commissioner's budget fell $7 million short of requirements in 1988; the deficit rose to $38 million the next year, and it is expected to reach $150 million to $200 million in 1990, said John Horekens, the head of fund-raising services.

As a result, the level of help and protection offered refugees is being steadily cut back. An internal memo of the refugee agency dated Nov. 30, 1989, notes that "150,000 to 225,000 refugee children are suffering from acute malnutrition. All of these children need nutritional rehabilitation. All are in danger of death."

The agency's Head of Program Management Services, Gerald Walzer, told the House Hunger Committee last month that he was forced to provide less education for refugee children, reduce the quality of water in some camps and restrict "basic items such as blankets, tents, shelter material, cooking utensils, heating and cooking fuel."

The new High Commissioner says he hopes to encourage new donors to contribute, including the Gulf Arab states, which give almost nothing, although close to half the world's refugees are Muslims. He also says he hopes the Soviet Union, the new democracies of Eastern Europe and the industrializing countries of southeast Asia will become more generous.

But with money hard to find, Mr. Stoltenberg also plans to put new emphasis on "political solutions." This means a drive to negotiate the voluntary return of Vietnamese boat people and other refugees, as well as intervening early in political crises to prevent large migrations and further strains on the agency's budget.

STATEMENT OF CHRISTIAN KORNAVALL, DIRECTOR OF FINANCE, INTERNATIONAL COMMITTEE OF THE RED CROSS

Senator LEAHY. Mr. Kornavall, again thank you for being here and we would like to hear from you.

Mr. KORNAVALL. Thank you very much. Thank you, Mr. Chairman. Thank you for giving me this opportunity to express views on the activities of the International Committee of the Red Cross to the Subcommittee on Foreign Operations.

In this brief testimony I will focus on three elements: one, the ICRC mandate; two, the increase of activities; and three, the decrease of U.S. support.

On the mandate, the ICRC's primary task is to act as a neutral intermediary between belligerents on behalf of those who are victims of war or internal disturbances. That is, the ICRC protects and gives assistance to prisoners of war, civilian internees, the wounded and the sick, the displaced persons, or persons living under occupation. The ICRC was given this mandate by the 166 countries who have signed the Geneva Conventions.

On the current funding crisis, in the past few years the ICRC activities have grown considerably. Between 1986 to 1989, the ICRC's total expenditure increased 70 percent. In 1989 alone, the ICRC was able to start major operations for victims in southern Sudan, northern Somalia, and Sri Lanka. It was present during the military intervention in Panama last December, providing emergency medical supplies and blood to hospitals there.

Moreover, it had to greatly expand its operation in El Salvador, Lebanon, Afghanistan, and in Israel and the occupied territories because of the increased need for medical relief and protection activities.

This year, we may be asked again to act quickly to provide emergency aid in some part of Eastern Europe, as we did last year in Romania.

Although donor support has increased over the years, it has not increased at the rate equal to our expenditures. In fact, the U.S. support to the ICRC has steadily decreased in relative terms since 1986. The U.S. Government share of donor support has fallen from over 30 percent of our 1986 field expenditures to an estimated less than 10 percent of our projected 1990 field expenses.

The ICRC is experiencing growing difficulties in finding the resources needed for its activities. Last year, despite very close attention to expenditures, the ICRC had an overall shortfall of $9 million, and the prospects for 1990–91 are bleak as well.

In 1989 the ICRC spent about $36 million to provide basic medical care for those wounded by war or for those who have access to no other medical care infrastructure because of fighting or conflict. Its surgeons treated more than 13,000 persons seriously wounded as a result of various conflicts in its nine surgical hospitals.

In 1989, the ICRC distributed an estimated 36,000 metric tons of relief medical supplies in 44 different countries, sometimes even having to use airplanes to fly in supplies into isolated areas, an expensive but necessary proposition.

The lack of adequate funds to meet the above-mentioned needs would definitely affect victims who are counting on our support. We cannot close some of our hospitals and people die because we

do not have the money to give the emergency surgery they need. We cannot let babies and young children contract dysentery because the water they have to drink is not clean. We cannot force those who have unwittingly stepped on a mine or a grenade and lost an arm or a leg to remain totally crippled and unable to look out for themselves, which might condemn them to death.

Besides reaching displaced persons who are reached by no other organization, the ICRC conducts some activities which are unique. It visits places of detention to monitor the treatment of prisoners of war, civilian internees, political detainees, and other prisoners.

Last year it made 7,273 visits to 839 different detention centers in 45 countries, where our delegates saw more than 68,000 prisoners. A visit from the ICRC is the only thing which gives prisoners hope for better treatment or for the chance to establish contact with their family.

The ICRC's Central Tracing Agency registered approximately 660,000 new information items concerning people held in captivity or reported missing. It also provided an exchange of almost 1½ million messages between separated families.

Cuts in funding could affect these activities, neither of which is performed by any other organization. Thus, families with a relative in prison for political reasons or with a relative who has disappeared could have absolutely no place to turn to for help in these matters.

PREPARED STATEMENT

Mr. Chairman, the International Committee of the Red Cross would like to thank the United States for having helped to provide for so many years the means necessary to help us fulfil our mandate to conflict victims worldwide. Your country's support has been and will continue to be most important for us. But that support is now too small. It must grow as the need of these people have done, so that we will not have to turn our backs on the suffering simply because the money is not there to help them.

Thank you. Thank you very much.

[The statement follows:]

STATEMENT OF CHRISTIAN KORNEVALL

Thank you, Mr. Chairman, for the opportunity to express views on the activities of the International Committee of the Red Cross to the Subcommittee on Foreign Operations. In this brief testimony, I hope to accomplish three things:

First of all, I would like to explain to you what the International Committee of the Red Cross is and how its unique mission allows it, and even requires it, to work where other international organizations cannot. I would also like to point out that its operations are growing in response to growing needs in the world.

Secondly, I would like to call the attention of this Subcommittee to the fact that, although the United States and other donor nations have generously supported the International Committee in the past, contributions lately have not followed at the same pace as the needs of civilian victims of war and internal strife around the world.

Thirdly, I must stress the impact of this financial crisis on those who feel it most - namely, those men, women and children whose lives have been affected so drastically by events totally beyond their control, who have been forced to flee for their lives from their homes, innocent bystanders who are wounded by mines or in the shelling or crossfire exchanged between warring factions who are tearing their countries apart, or are starving because they cannot peacefully cultivate their land. How can we not help them?

The Mandate of the ICRC

The ICRC is not a multi-national organization. It is a private, independent body which operates worldwide. It is independent of all Governments, and its actions and decisions are based entirely on humanitarian considerations. It has no resources or funds of its own and relies on Governments, National Societies, and private individuals for the means needed to do its work.

The ICRC is a Swiss organization. Its headquarters are in Geneva, Switzerland and its delegates working in the

field are Swiss citizens. This makes it easier for the ICRC to be the independent, impartial, and neutral body which it is.

The ICRC's primary task is to act as a neutral intermediary between belligerents on behalf of those who are victims of war or internal disturbances, that is, prisoners of war, civilian internees, the wounded and the sick, and displaced persons or persons living under occupation. It has been given this mandate by the 166 countries who have signed the Geneva Conventions. The ICRC never takes sides or judges. It does not point an accusing finger at anyone in the belief that its humanitarian mission is best accomplished through persuasion devoid of all publicity or pressure from public opinion. Because of this absolute discretion, so rarely found these days, the ICRC is often given permission to work in a country which remains closed to other organizations.

Delegates often live in the midst of fighting. They are protected only by the Red Cross emblem, and their jobs are sometimes carried out at the risk of their lives. Though caring for the wounded and supplying emergency medical and relief supplies remain a top priority for ICRC work in countries in conflict, the organization also organizes material and medical assistance to displaced persons whose survival has been put into question by conflict.

Let me make it clear: the very nature of the ICRC's work does not lend itself to a mathematical quantification of its achievements. Seeking to impress with the sheer magnitude of results in figures has never been part of ICRC philosophy. Our mandate is to provide protection and assistance for as many or few people as may require it in the event of an emergency situation arising in connection with an armed conflict, especially in cases where other humanitarian agencies are unable to work for political or other reasons.

Current Funding Crisis

In the past few years, ICRC activities have grown considerably. In 1989 alone, the ICRC was able to start major

operations for victims in southern Sudan, northern Somalia, and Sri Lanka. It was present during the military intervention in Panama last December, providing emergency medical supplies and blood to hospitals there. Moreover, it had to greatly expand its operations in El Salvador, Lebanon, Afghanistan and in Israel and the occupied territories last year because of the increased need for medical, relief and protection activities. This year we may be asked again to act quickly to provide emergency aid in some part of eastern Europe, as we did last year in Romania.

Although donor support has increased over the years, it has not increased at a rate equal to our expenditures. In fact, U.S. support to the ICRC has steadily decreased in relative terms since 1986. The U.S. Government's share of donor support has fallen from over 30% of our 1986 field expenditures to an estimated less than 10% of our projected 1990 field expenses.

The ICRC is experiencing growing difficulties in finding the resources needed for its activities. Last year, despite a very close attention to expenditures, the ICRC had an overall shortfall of $9 million, and perspectives for 1990 and 1991 are bleak.

Effect of this Crisis on Displaced Civilians and Victims of Conflict

In 1989 the ICRC did all it could to reduce its expenses to a minimum while still covering the needs of victims of conflict all over the world. A continued gap between needs and available funds, however, would mean that we could not provide care for a number of suffering persons who depend on us. Let me give you some examples:

In 1989, the ICRC spent about $36 million to provide basic medical care for those wounded by war or for those who have access to no other medical care or infrastructure because of fighting or conflicts. Its surgeons treated 13,000 persons wounded as a result of various intra- or inter-country conflicts in its nine hospitals located in the Afghanistan/Pakistan, the border of Thailand/Cambodia, or in

Africa, produced 10,407 prosthetic devices for victims who lost arms or legs mostly blown off by mines or grenades (as well as countless crutches and wheelchairs), monitored the nutritional status of conflict victims in more than 15 countries, especially in Africa, and organized food distributions, provided clean water to hospitals and health centers, to some detention centers and to civilian populations in areas where the water supply and the evacuation of wastes have been extensively damaged or where the lack of these facilities seriously endangered health.

The lack of adequate funds to meet the above-mentioned needs would definitely affect victims who are counting on our support. We cannot close some of our hospitals and let people die because we don't have the money to give the emergency surgery they need. We cannot let babies and young children contract dysentery because the water they have to drink is not clean. We cannot force those who have unwittingly stepped on a mine or a grenade and lost an arm or a leg to remain totally crippled and unable to look out for themselves, which might condemn them to death.

Another example: In 1989, the ICRC distributed an estimated 35,755 metric tons of relief and medical supplies in 44 different countries, sometimes having to use airplanes to fly in supplies to isolated areas - an expensive but necessary proposition.

Without the necessary funds, we might have to cut off some of these programs in the future. We might not be able to distribute food to people who have fled their homes and have no other resources, who need the very basic supplies we provide like blankets and candles and a piece of soap.

Besides reaching some displaced persons who are reached by no other organization, the ICRC also conducts some activities which are unique. It visits places of detention to monitor the treatment of prisoners of war, civilian internees, political detainees and other prisoners. In 1989, it made 7,273 visits to 839 different detention centres in 45 countries where delegates saw more than 68,000 prisoners. Sometimes a visit from the ICRC is the only thing which

gives prisoners hope for better treatment or for the chance to reestablish contact with their families.

The ICRC's Central Tracing Agency registered approximately 660,000 new items of information concerning people held in captivity or reported missing. It provided for the exchange of almost one and one-half million messages between separated family members.

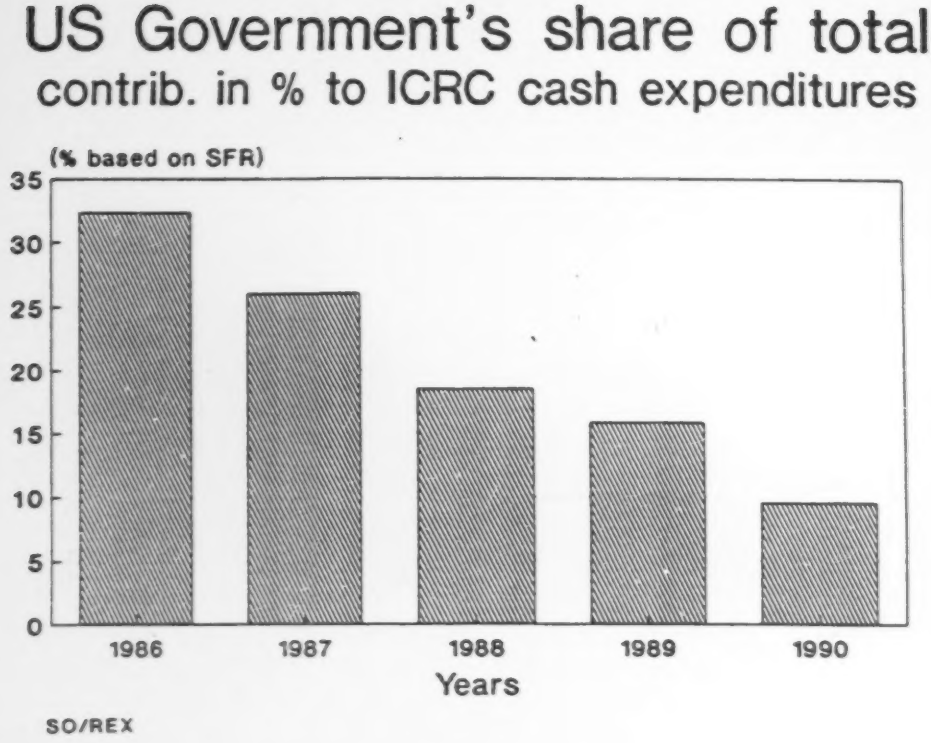
Cuts in funding could affect these two activities, neither of which is performed by any other organization. Thus, families with a relative imprisoned for political reasons or with a relative who had "disappeared" could have absolutely no place to turn for help in these matters.

I could spend all afternoon citing example after example of the ways in which a lack of sufficient contributions to our expenses would force us to cut back on programs which are vital in relieving some of the suffering experienced by those who are caught in indescribably difficult situations by the fortunes of strife.

The ICRC has really cut its expenses to the bone. It is composed of truly dedicated individuals who sacrifice glory and high salaries to try to alleviate some of the misery caused by political conflicts which often have no meaning for those who suffer.

One of our major preoccupations at present is the liberation of two of our colleagues who have been held hostage in Lebanon for exactly 7 months today. The ICRC heals the wounds in the aftermath of conflict, reaching into the backyards of countries where forgotten victims have been left behind.

Mr. Chairman, the International Committee of the Red Cross would like to thank the United States for having helped to provide for so many years the means necessary to help us fulfill our mandate to displaced persons worldwide. Your country's support has been and will continue to be most important for us. But that support is now too small. It must grow as the needs of these people have grown, so that we will not have to turn our backs on the suffering simply because the money isn't there to help them.



INTERNATIONAL RESPONSE TO REFUGEE CRISIS

Senator LEAHY. Thank you both very much. I appreciate your testimony and your attendance here and the sentiments you express.

Let me start, Mr. Winter, with a general question. I worry that the machinery, for want of a better term, the international machinery for dealing with refugees and displaced persons, is not working the way that it should be working.

Millions of people are not adequately being cared for. I think you would both agree with that. I believe every witness here would. Children are starving and sometimes they starve not because there are not relief supplies, but that we just cannot deliver the relief supplies. We see what has happened in Ethiopia, for example.

We still have people who are fleeing Vietnam in leaky boats that none of us would use in calm seas, to say nothing about the seas they go through. They are being attacked by pirates, they are murdered, raped, drowned.

Suicides and forced recruitment by the Khmer Rouge are common in Cambodian refugee camps right in Thailand. In Africa, just look at the millions of people that are caught up in the middle of civil wars.

What has happened? I mean, do we have a situation that is impossible? Do we have machinery that can even respond to this, or do we have to develop new machinery? Is it just a matter of money or is it a matter of how we handle the situation?

Mr. Winter first and then Mr. Kornavall.

Mr. WINTER. I will try. Obviously, it is a pretty big question. I personally look at the period we are entering now as a period of opportunity and a period in which we ought to be optimistic in terms of what can be accomplished. I do not think we have set up ourselves well in order to deal with the opportunities that are presented to us.

But if you look around this particular field, you will see that the overwhelming majority of that increase or that number of refugees in the world relates to regional disputes in which geopolitics were a key factor. External support of a political and diplomatic or hardware kind of nature often has played a very key role in these regional disputes and in displacing significant numbers of the population or killing them or otherwise wreaking havoc on them.

It looks like we have an opportunity for some of that to calm down. Some of these situations which were fueled from the outside may be able to be resolved on their internal causes, rather than being perpetuated by outside support.

That ought to give us an opportunity to have a lot of people return to their homes and become established. As I indicated to you, I do not think we are well positioned in terms of the United States to deal with that. While we seem to do a fairly good job at, at least in select cases, on some of the politics of trying to resolve some of these regional disputes, we certainly have not taken adequate leadership in assuring that the machinery to deal with the victims is able to cope with the needs of victims.

We are not, in other words, keeping them alive and keeping them adequately prepared so that they can return to their society. We are letting them become flaccid in terms of their ability to contribute to their home situation if they get the chance to return.

That is an issue of money, but it is not only an issue of money. It is an issue on where we invest our values and where we invest our diplomatic capital. I would suggest that we ought to be doing considerably more as the United States, because our people and our country not only have the ability to exhibit leverage, we have a lot of vision about these kinds of things, and we ought to be making our vision real when it comes to dealing with these victims.

There is one other thing, and that is the international machinery for dealing with refugees and displaced people has some major gaps. There is a reasonably well-defined system for dealing with refugees. There is a system for dealing with some aspects of internal displacement. Unfortunately, they all depend very much on the OK of a government to work in a particular situation.

I would like to think that, at a time when geopolitics are abating, that there might be the possibility of what were the former two major blocs being able to come together in some new form of humanitarian initiative that would permit us to meet the needs of victims of their own governments, so to speak. When a government is so offensive that it is outside the boundaries of acceptable international behavior, I would like to see a situation in which the international community could respond.

That does not really exist right now. Even the good programs that Mr. Kornavall has cannot come on line unless an offensive government lets them function within their boundaries.

Senator LEAHY. Mr. Kornavall.

Mr. KORNAVALL. One starting point would be of course the underdevelopment in many of these countries, which of course is a base for conflict and increased problems in relation to conflict. The whole poverty element I think is important to stress.

The second thing is, of course, that the humanitarian issues is not on the forefront of the agenda in coming to make conclusions or agreements. Looking to Africa last year and to where we are today, we do not see the good signs of this development.

And third, there needs to be a political will also to enforce, and this comes from those governments who are in contact with the different parties to a conflict, in fact to set certain rules or certain criteria on how they behave in certain situations. And here there needs to be a lot more pressure toward the different parties to the conflict to behave in a certain way when it comes to humanitarian issues.

One great problem for the ICRC is the applicability of the Third Geneva Convention, the treatment——

Senator LEAHY. I am sorry, the applicability of what?

Mr. KORNAVALL. The Third Geneva Convention and the applicability of the treatment of prisoners of war. Today there are many prisoners of war still held in captivity, that they should have been repatriated before.

Thank you.

UNHCR

Senator LEAHY. I am wondering—in fact, both of you may want to respond also to this. We have seen all the problems over the past few years with the U.N. High Commissioner for Refugees. It has been an organization that has not gotten the highest marks on anybody's organizational chart. There has been duplication and waste there. It has not had the best of leadership. It has not always responded quickly enough to emergencies and as a result some of those emergencies became even worse, people actually died, money has been wasted.

But it is the largest international organization with a mandate to deal with the problems. How are they today? Are they improving? Are they on the right course? What kind of a grade?

Mr. WINTER. It might be easier for me to answer that than for another international organization to answer that.

Senator LEAHY. Maybe I will just leave it to you then, Mr. Winter.

Mr. WINTER. OK.

Senator LEAHY. What kind of a grade do you give it?

Mr. WINTER. I am known for being a critic of UNHCR over the years for what we consider to be their failure to respond adequately to internal management problems. But I have to tell you, you do not make UNHCR better by starving it to death, and that is what has been happening. It only compounds the problem.

UNHCR as of January 15 has a new High Commissioner. There is a new Deputy High Commissioner who came on I believe around the beginning of March. I have met with the High Commissioner and the Deputy on a number of occasions already. I frankly think they are a—forgive me for saying it, but—a hot new team who has

the capacity for showing a lot of leadership in that institution, the capacity for negotiating with governments at a political level as well as working with governments on a humanitarian level and trying to bring about solutions.

I am optimistic that UNHCR's performance can improve. I have to say that at the very basic level in the field very often you find UNHCR to be performing in an excellent fashion. Those breakdowns, and there have been breakdowns, but those breakdowns there are, tend to be the exception to the rule.

The only thing we can do if we are going to be realistic about dealing with refugees is figure out ways to make UNHCR work. With a new team and some more resources, I think we will see better performance by UNHCR.

ICRC

Senator LEAHY. Mr. Kornavall, the ICRC has severe financial problems, as you have testified. Which of your operations are most underfunded, and what is going to be the consequences if they do not receive adequate funding?

Mr. KORNAVALL. In general, it is Africa who is most underfunded as a whole. And also of course, 60 percent of our operations are conducted in Africa, and due to the size of the African appeal we have not been able to cover it. We have in fact a deficit of about $12 million for Africa program in itself last year.

When it comes to what will be the effect if this financial situation will continue, we do not foresee it is impossible to slice out costs, to take out a delegate here and a delegate there. What then in that case would be needed would be actually to close one of the bigger operations, and that would be a very difficult priority setting, actually to tell that these people will not have the emergency assistance which we try to afford them, and that we will try to prevent at all means.

U.S. CONTRIBUTIONS TO REFUGEE AGENCIES

Senator LEAHY. Dr. Winter, look at the U.S. contributions to the refugee relief agencies. If we do not reverse the downward trends in contributions to these agencies what is going to happen in Africa?

You have heard what Mr. Kornavall has said. Do you see anybody else rushing in to fill the void?

Mr. WINTER. Well, it is the case that, I believe in the case of ICRC, and it is the case of UNHCR, that budgets, while inadequately increasing, have been increasing, while the U.S. contribution has been meaningfully decreasing, which does mean that other governments are recognizing their responsibility and are stepping in.

It is just that you cannot confront problems like this without the United States being in front in terms of the financial contribution. What I can tell you from my own experience is this: Practical problems of a life-threatening nature and in fact loss of life is occurring now. This is not a future discussion.

When there is no ability to transport food to refugees who are wholly captive because they fled from their own country and they are locked up in a camp somewhere else and the government that

is housing the camp does not let them go outside to work or to grow or something because it gives competition to their local nationals, this is a wholly dependent population.

When you cannot get food to them because there is not the cash flow to keep the trucks rolling, because you cannot pay contractors, when you cannot repair water pumps and therefore people have to drink raw standing water, when you cannot provide medical care because the money simply is not available and you have to ship people 200 or 400 miles in order to preserve their life and therefore some people do not get that trip and their life is not preserved, these are the kind of situations which are already happening.

When a system as far flung as UNHCR begins to suffer its own form of financial starvation, what happens is refugees at the fringes, at the outer parameters of the system, begin to be lost, and that phenomenon simply multiplies as the resource starvation continues.

That is the situation we are in now. That is what we are hoping the next year, the 1991 budget, is going to help reverse.

Senator LEAHY. Mr. Kornavall, the chart shows that the percentage of your budget donated by the United States has fallen dramatically since 1985, and I am going to submit a couple of particular questions on this. But how does that compare to other donors? Have their contributions fallen also?

Mr. KORNAVALL. In general they have increased.

Senator LEAHY. They have increased?

Mr. KORNAVALL. They have increased. Otherwise, it would have been impossible for us to expand our operational activities. Of course, we would like to, in order to expand, we would like to keep up our usual donors, at least not to have drawbacks while expanding the activities, at the same time to upgrade other donors who have not actually come in with sufficient support.

But if others kept sliding back, you have to work even double uphill in that respect.

At the same time, we would like to expand the pool. We are trying to incorporate new governments into the donor pool into the ICRC, the NIC countries, the new industrialized countries, or other strong, growing countries, to give support to maintain assistance.

One problem here is it is not done overnight. You cannot actually raise funds, considerable funds, which this question is about, from donors who are not used to give to this type of activities. It takes some time to create this. And of course our aim is, for the ICRC, is to have a donor pool which is divided into many, many donors and be less and less dependent on any specific donors. But of course we have to rely on the rich countries also to set an example.

During last year, 72 countries contributed overall to ICRC funding, which is for us a good record. Of course, some of them, like some poor countries in Africa or in Central America, gave us only symbolic contributions, but actually that they gave us money was very important to us.

Thank you.

Senator LEAHY. Well, as I said, I will have some specific questions for both you gentlemen for the record. But let me just close with one thing. I was in one small country a couple of years ago

where there were victims of the war that was ongoing. Without going into who was right and who was wrong in the war, what struck me was a young boy in his very early teens who I met in a field hospital out in the middle of the hot jungles. Much what you would expect in a field hospital in an area where there had been fighting. A very pleasant young boy, but he had one leg.

His other leg had been blown off by a mine that he had stepped on in the jungle. During the type of fighting that had gone on there, most of those trails were seeded with mines.

But he had been in that field hospital for a very considerable period of time, I think it may even have been years. He was healed from the wound, but he was in an area of peasants and farmers and he could not work, probably never would be able to.

We came back and because of what we saw 2 years ago we initiated a small fund to provide artificial limbs to civilian victims of war. The funding is in our foreign aid bill. Mr. Rieser of my staff has also traveled and gone to parts of the world to see how the fund might be used.

We have begun projects in Mozambique and Uganda. A third is planned for Laos. The war victims project in Mozambique includes a grant to the ICRC. You have prosthetic workshops there. In fact, that is one that I may be able to visit this year.

In how many countries—and you can supply this for the record—do you have these kinds of programs where your staff are giving onsite medical treatment to civilians who have been physically disabled as a result of warfare? How much is the ICRC spending on these kinds of programs annually? And are there other places where this war victims fund could work with ICRC prosthetics programs?

Mr. KORNAVALL. On top of my head——

Senator LEAHY. Certainly.

Mr. KORNAVALL [continuing]. I cannot give all. But we have these types of activities in Mozambique, in Angola, in Uganda, in Ethiopia, in Sudan, in Afghanistan, in Pakistan. We have it also in Lebanon, in Syria, we have it in Nicaragua. And I think we are planning in Vietnam and Laos. I might miss some someplace.

But it is an important part of our operations, and as our surgical hospitals, I am afraid, have to carry out certain types of operations due to these effects, it is very important also that one can provide rehabilitation. Because also surgeons who have to make certain type of cuttings, of course it is very important also to see that the rehabilitation phase comes afterward.

Senator LEAHY. I understand. I understand that you have not only the surgery, but some training of the patients to teach them how to use the prosthetics. Actually, buying the prosthetics may be one of the easier things to do. You can get them both with corporate contributions and the money from the War Victims Fund.

The difficulty is getting people trained to prepare the victim for the device and train them how to use it. And of course, when we are dealing with children, the child grows and changes in size.

A good friend of mine who is a member of the Appropriations Committee recently visited Vietnam and Cambodia. He himself wears a prosthetic, having lost his leg below the knee. And I talked with him of these needs.

There are so many places in the world where we could help with a relatively small amount of money. With a relatively small involvement, you could change a person's whole life because these people are in countries where they need the ability to walk or to use their arms to make a living.

Any one of the three of us, tragically for whatever reason, if we lost an arm or a leg, we could continue our work, we could continue to make a living. We could continue to do exactly what we are doing now.

But the vast majority of these people cannot. They are doomed by whatever it was, usually a war that they had no control over. And yet we could change their life dramatically if we are able to continue this program and make it work.

Mr. WINTER. That is what this work is all about, Senator.

ADDITIONAL COMMITTEE QUESTIONS

Senator LEAHY. I understand. As I said to an earlier witness, you preach to the converted up here. But let us work together on that one, and we will follow up with you on it. We will have some additional questions which we will submit to you in writing.

Mr. WINTER. Thank you.

Mr. KORNAVALL. Thank you very much.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

OVERVIEW OF GLOBAL REFUGEE SITUATION

SENATOR LEAHY: I have a sense that the international "machinery" for dealing with refugees and displaced people is not working the way it should.

Millions of people are not being adequately cared for. Children are starving because of failures in the delivery of relief supplies. People are still fleeing Vietnam in leaky boats and being attacked by pirates or drowning. Suicides and forced recruitment by the Khmer Rouge are common in Cambodian refugee camps in Thailand. In Africa millions of displaced people are caught in the middle of civil wars.

What has happened to the system? Why has it broken down? What can be done to make it work--to fill the gaps so these people will be taken care of?

MR. WINTER: You are correct that there are major problems with the international "machinery" the world community has structured to deal with refugees and displaced people.

In my view, the major problems include the following:

1. There are major gaps in "the system."

One is that, because the UN is in some senses a trade association of governments, the UN has no ability to mandate proper action by a recalcitrant government. Thus, even though a population may be obviously refugees on the merits of their situation, a government may choose for its own reasons not to so designate them, thereby rendering normal international protection and assistance responses inoperable. Good examples include Somali refugees in Djibouti, Mozambican refugees in South Africa, Burmese refugees in Thailand, and Cambodians just inside Thailand. All are clearly refugees; all are denied that status by the government on whose territory they find themselves.

Another major gap concerns people whose circumstances are identical to that of recognized refugees, except that they have not crossed an international border, i.e. they are still in their homeland. Such individuals are usually termed "internally displaced people" or "internal refugees". Though they may be persecuted, even massacred, they are generally viewed as the internal concern of their government. By that approach, Jews in Nazi Germany in 1944 would be deemed only the internal concern of a sovereign government. This is obviously untenable.

Some governments become so offensive in their treatment of their nationals that a new system of intervention, especially to meet humanitarian need, should be established. Otherwise the world is forever in a position of gerrymandering an ad hoc response to each such tragedy, or waiting to respond until survivors flee across an international border--after most of the damage is done, and after "the problem" has been dumped in the lap of a contiguous country.

2. The "system" is resource-starved.

Our testimony provides substantial detail to demonstrate that, while faced with all-time high numbers of refugees and displaced people, the organizations which are components of the refugee response system have never been so poorly funded. The decline in U.S. per capita contributions and in the share of each organization's budget is a major factor in this crisis.

Additional resources could ameliorate some of the situations you cite.

3. The "system" suffers from inadequate diplomatic support from the U.S. and West European donor governments. It has also been "politicized" by some governments.

For at least the last decade, western donor governments have adapted more restrictive approaches to immigration from the Third World. These approaches have often been too broadly drawn, inadequately differentiating refugees and others that need protection, i.e. people who are fleeing, from other migrants. As a result, donor governments' ability to preach to governments in the Third World about refugee protection has been compromised and their willingness to do so dissipated. This has in turn led to a lessening of diplomatic support for UNHCR's protection responsibilities.

An example of the types of practices that have caused this result is the U.S. practice of interdicting Haitian boat people at sea. Since that practice began in 1981, only six of over 22,000 Haitians interdicted were allowed to pursue asylum claims in the U.S., despite Haiti's history of catastrophic governance and violence in that nine year period. It is also the case that "the system" has often been approached in a highly politicized fashion by many governments, including the U.S. Thus, for example, UNHCR refugee camps in Pakistan were often largely base areas for armed Afghan Mujahedein rebels. While these international organizations are chartered as neutral humanitarian nonpolitical entities, this theory has often been substantially tampered with in the 1980s.

4. The system is not capable of resolving some of the situations cited.

For example, the matter of piracy has been addressed over a period of years, by UNHCR and by the U.S. and Thailand. Resources and diplomatic muscle have been used and have, at times, produced improvement. However, the problem is fundamentally one of massive and persistent criminality, primarily victimizing refugees, and as such beyond the ability of the refugee response system, which is largely humanitarian in focus, to resolve.

It is my view that the U.S. can and should take the leadership in leading the world toward a stronger, more proactive and more humanitarianly neutral approach to responding to refugees and internally displaced people.

It would be ever-so-American to do that.

FUTURE REFUGEE NEEDS

SENATOR LEAHY: One would think that the lessening of tensions between the superpowers would result in fewer regional conflicts, and fewer refugees, yet the trend seems to be in the opposite direction. What do you predict as far as numbers of refugees over the next two to three years.

MR. WINTER: I remain confident that the lessening of tensions between the superpowers will ultimately reduce refugee numbers. There is an obvious lag time in our seeing the actual resolution to regional disputes which both were fueled from the outside and which

created most of the dramatic increase in refugee numbers experienced during the 1980s.

With the superpower confrontation abating, those regional disputes will in some cases be more resolvable in terms of their indigenous causation. Whether or not this will occur within two or three years is hard to gauge. We expected rapid change in the Afghanistan situation once the Soviets withdrew. However, Afghan refugee numbers have actually continued to increase. Thus general predictions on repatriation of refugees are problematic.

In terms of resource needs, however, the picture is clearer. Repatriation, while the desired outcome, also costs money. Returning refugees to a landscape devastated by many years of war can itself produce a humanitarian emergency if not adequately funded. The point is that whether refugees repatriate or remain in exile, resource needs will remain high for at least several years.

SENATOR LEAHY: How does the ICRC decide what field operations to undertake? Under what conditions and in what circumstances does the ICRC decide to carry out an operation in a war or conflict situation? What are the conditions you demand in order to operate in a war situation? How do you cope with the risks to your delegates in a war situation?

MR. KORNEVALL: For operations in conflict areas, first the ICRC verifies that there is a legal basis for beginning an operation in the Geneva Conventions and/or the Additional Protocols, according to its mandate and unique right of humanitarian initiative.

In practical terms, this means there must be a situation of armed conflict or serious tension and a group or groups of victims with urgent needs. The situation must be an emergency, and the ICRC must fill a void. If another organization is able to meet the needs of conflict victims the ICRC will not begin operations.

Before a decision is made whether to initiate an operation in a conflict area the ICRC sends a survey team to determine the victims' needs and the possibilities for action in the field. The decision on whether action is needed and whether the ICRC alone can provide help is then taken at headquarters based in part on the recommendation of the survey team.

The job is naturally a hazardous one. However, the institution takes the following precautions to ensure the safety of its operations:

1) activities are undertaken after all participants in the conflict have accepted an ICRC presence.

2) the ICRC tries to maintain regular contact with all

participants in the conflict and is extremely transparent in its work.

3) ICRC personnel and vehicles are protected by the emblem (the Red Cross), which must be a recognized symbol of neutral and impartial humanitarian activity. Toward that end the ICRC carries out dissemination for target groups (armed forces, media, etc.) and among civilians in the conflict zone.

4) each delegation issues security rules for its staff. These take into account the specific risks inherent to the delegation's area of operation.

These are some of the measures the ICRC takes to reduce the danger of incidents during operations.

The ICRC also requests that certain conditions be met before it begins activities. Among these are the following:

1) all distributions of goods are carried out under the supervision of ICRC expatriate staff.

2) protection activities for those in detention are done according to ICRC criteria, including:

-access to all people held in the place of detention visited
-access to all parts of the place of detention visited
-interviews without witnesses for persons visited
-the ability to repeat visits on a regular basis

3) the Red Cross emblem will be respected

SENATOR LEAHY: I know the ICRC has prosthetics workshops in Angola. How many civilian amputees are you able to treat per year in Angola and how many are in need of treatment?

MR. KORNEVALL: The Bomba-Alta and Kuito orthopaedic centres produced 2,124 prostheses and carried out major repairs to 1,580 prostheses in 1989. The ICRC's policy is to admit at least 501 civilian patients.

Prostheses are generally expected to last about four years. At present production rates, the two centres could support about

8,500 people with prostheses on a regular basis. Strictly speaking this would mean more than 4,250 civilians.

Estimates of the total number of amputees in Angola range from 30,000 to 60,000. Of these, there are at least 20,000 people who lost their limbs while in military service, and often these people were drafted. Orthopaedic centres in Luanda run by the Swedish and Dutch Red Cross Societies generally have problems filling their quotas of 50% civilian amputee-patients although there are many people in need of prostheses in the capital. The ICRC centres, because they are situated on the central Planalto, attract more civilians, but need to transport their patients by plane because the region is heavily mined and affected by extensive fighting.

SENATOR LEAHY: Two years ago I initiated a small fund to provide artificial limbs to civilian victims of war. Projects have begun in Mozambique and Uganda, and a third is planned for Laos.

The War Victims project in Mozambique includes a grant to the ICRC, which has prosthetics workshops there.

In how many countries do you have these kinds of programs, where your staff are giving on-site medical treatment to civilians who have been physically disabled as a result of warfare?

How much does the ICRC spend on these kinds of programs annually?

Are there other places where my War Victims project could work with ICRC prosthetics programs?

MR. KORNEVALL: The ICRC presently has 46 expatriates participating in the work of 21 prosthetic-orthotic centres in 13 countries (see map, attached). The orthopaedic program pays for expatriate's and local employee's salaries, trains local employees, and provides equipment and material for the production of orthopaedic devices. In addition, the ICRC builds therapeutic and training facilities and housing for patients, and transports patients to and from the centres (these costs fall under the operational support and transport programs of the ICRC budget). The total budget for the orthopaedic program worldwide in 1990 is SFr. 6,608,900 (about $4,720,000). In 1989 the program's expenses were SFr. 4,250,940 (about $3,035,000).

The ICRC orthopaedic centres in Vietnam, Afghanistan and Angola are the ones that require the most assistance. All face a great deal of demand (due principally to extensive mining of roads and fields in the conflict areas), and any increased production capacity would certainly be put to good use.

SENATOR LEAHY: What is the difference between the ICRC and the UNHCR? What do you do that the UNHCR does not do? Do you compete for the same pool of funds? Is there a way to make your operations and fund-raising more complimentary?

MR. KORNEVALL: The UNHCR's mandate stems from the 1951 UN Convention Relating to the Status of Refugees and is limited to a certain category of conflict victims in a specific legal situation. Apart from that, the UNHCR, as a member of the UN system, operates with a number of political constraints that do not apply to the ICRC.

The ICRC's mandate is both older and broader than that of the UNHCR. It stems from the Geneva Conventions (dating back to 1863) and the international humanitarian law that developed parallel to them, and it includes a unique right of humanitarian initiative.

In practical terms, this means the ICRC's field of activity is considerably more varied. The ICRC assists residents, displaced people (within national boundaries) and refugees (when no other agency can do so). The ICRC mandate also includes the provision of medical assistance for conflict victims, including activities in the fields of nutrition, sanitation and clean water, surgical hospitals, evacuation of the wounded and the orthopaedic programs mentioned above. The Geneva Conventions and their Protocols also provide the basis for protection of people held in connection with conflicts or disturbances; ICRC delegates carried out over 68,000 visits to detained people and prisoners of war in 45 countries in 1989. As part of the effort to alleviate the suffering of conflict victims the ICRC also carries out tracing activities through the Central Tracing Agency and tracing agencies throughout the world for missing persons and separated families.

ICRC expatriates are present during all ICRC activities, and they monitor all assistance programs. The ICRC never subcontracts activities to NGOs.

The ICRC and the UNHCR do indeed compete for the same pool of funds. Over 90% of the ICRC's financing comes from Governments' humanitarian assistance or disaster aid funds, which are also tapped to support the UNHCR.

The ICRC and the UNHCR are already very complimentary in their work. There is no overlapping between the two organizations. In the field the two institutions' operations are closely co-ordinated to avoid such problems. The ICRC has in the past taken on some activities on an emergency basis which would generally be under the UNHCR's mandate, but this is quite rare. When it does happen the ICRC stops its operation as soon as the UNHCR can assume or resume its own action.

Last year, for example, the ICRC began an operation in Mauritania and Senegal at the end of April when tens of thousands of refugees, forced-returnees and others were displaced over the border. For two months the ICRC operation covered the needs of various groups, including refugees. In early July these activities were taken over by the UNHCR after a smooth transition. The ICRC operation then concentrated on activities unique to the institution, such as protection of people in detention and tracing missing persons.

More recently, the ICRC carried out relief action for Ethiopian refugees in northern Somalia when the UNHCR temporarily suspended activities in that region in early 1990. When the UN EIEP (Extraordinary Interim Emergency Program) began operations for refugees the ICRC concentrated its activities on the displaced and residents suffering from the internal conflict.

SENATOR LEAHY: You have said the ICRC has severe financial problems. Why is that?

Which of your operations are the most underfunded, and what are the consequences?

What solutions can you offer to resolve ICRC and other international relief agencies' funding problems?

MR. KORNEVALL: The ICRC's financial problems are mainly due to the fact that the growth in income has not been commensurate with the growth in operations. ICRC activities over the past three years have increased quantitatively and qualitatively.

	1987	1988	1989
Number of surgical hospitals	6	8	9
Number of places of detention visited	520	830	840
Number of countries where visits took place	27	36	45
Total expenditures, million SFr	173	244	367
Cash expenditures, million SFr	146	189	288
Cash income, million SFr	129	181	266

(The Swiss franc has gradually risen in value over the past three years. It is now worth approximately US $ .71)

The rapid growth in ICRC activities took place mainly because of the much wider access to victims of conflict was given to the ICRC. In 1989 alone, major operations were begun in southern Sudan, northern Somalia, Sri Lanka and Panama. Urgent emergency action was taken in Romania. Operations were expanded in El Salvador, Lebanon, Israel and the occupied territories and Afghanistan.

While the institution has done a great deal to increase donor support, coverage of operational costs has fallen behind, slowly eroding the ICRC field budget's balance brought forward from SFr 34.4 million in 1986 to a negative level in 1989 (SFr -13.7 million).

Presently the most underfunded operations are in the following countries:

Earmarked Contributions and Pledges for Major Underfunded ICRC Operations, End of May, 1990 (thousand SFr)

	Contributions and Pledges	Estimated Expenditures
Afghanistan	1,343	5,600
Pakistan	1	6,445
Iran-Iraq	730	3,436

Total non-earmarked contributions for the appeals listed above stand as follows as of the end of May:

Asia	SFr 1.290.966
Middle East	564,172

The ICRC will do everything in its power to avoid a situation where funding problems prevented it from meeting the needs of conflict victims. The signatories to the Geneva Conventions bear responsibility to support the institution in its humanitarian work.

On the question of how to solve the funding problems of the ICRC and those of other international relief agencies, I can only give you my personal view as head of the external resources division of the ICRC. I would not venture a guess at how to resolve other agencies' funding problems, for lack of knowledge of their situations, which may vary widely.

The ICRC is encouraging those donors already giving to the institution to increase their support. Furthermore, the ICRC is seeking to broaden the donor pool and include Governments and National Societies that so far have offered little or no support for field activities. Developments in eastern Europe, for instance, might enable the ICRC to find substantial support in services from the respective National Societies. The newly industrialized countries, especially South Korea, Singapore, Thailand, etc. are being approached for more funding.

Aside from maintaining and broadening the traditional pool of donors, the ICRC is also looking into the possibility of non-traditional fund-raising, such as the use of legacies, sponsorship and private contributions.

SENATOR LEAHY: The percentage coverage of your budget from the United States has fallen dramatically since 1985. I also note that US contributions have fallen in absolute terms.

What is the pattern of US contributions and what is the effect on your operations?

How does that compare to other donors? Have their contributions fallen also?

How has this drop in funds from all donors affected your assistance to displaced people?

MR. KORNEVALL: Overall US contributions have fallen since 1986 as follows:

Year	Contributions (million $)
1986	31.8
1987	26.1
1988	24.3
1989	18.1 (not including $10 million contribution as a humanitarian gesture to commemorate the 125th anniversary of the Geneva Conventions)
1990	17.8 (pledges and contributions announced so far)

The effect of this drop in support has been worsened by the fall of the US dollar against the Swiss franc. Expressed as a percentage of the ICRC's field expenditures, the American Government's contribution has fallen from over 31% in 1986 to under 9% in 1990.

About 70% of the US contribution has consistently been given for operations in Africa. Funding for ICRC operations in Latin America has been steadily decreasing ($3.6 million, 2.2 million, 1.8 million and 1.6 million respectively from 1986 to 1989). Contributions for activities in Asia have followed an erratic path, going from $3 million in 1986 to $1 million in 1987 and reaching $5 million in 1988 (no support was given to operations in Asia in 1989). The Refugee Bureau made no requests for funding of ICRC operations in the Middle East over these four years.

However, limited resources were sporadically made available for the ICRC's operation in Lebanon from ERMA funds.

The effect of the decline in US Government support for ICRC operations is that the ICRC has been forced to request additional funding from other donors, such as the Governments of Finland, Sweden, Denmark, Switzerland, Austria and Italy. These donors are reaching the limits of their ability to give.

SENATOR LEAHY: What was your total budget last year, and what do you expect to receive in contributions this year?

What portion of that amount goes to assist displaced people and refugees, and what portion to assist prisoners of war?

What is the actual need--how much would you have to spend to actually do the job you are mandated to do?

MR. KORNEVALL: The total field budget for 1989 came to SFr 474,003,900 (about $338,570,000). Expenditures amounted to SFr

367,897,400 (about $262,783,000). Contributions in cash totalled SFr 265,933,500 (about $190,000,000) and contributions in kind and in services equalled SFr 79,230,600 (about $56,600,000).

The 1990 budget totals SFr 363,143,300 (about $259,387,000). According to the most recent forecasts, the ICRC will receive about SFr 238,000,000 ($170,000,000) in cash contributions this year. As in past years, there will also be significant contributions in kind and services, but these are more difficult to predict.

The answer to your second question requires some explanation, because the ICRC's accounting procedures do not correspond to these categories. The ICRC field budget is generally divided into a number of main programs, including the following:

Protection
Tracing Agency
Medical Activities
Relief Activities
Dissemination/Information

Each main program is then divided into sub-programs. (The orthopaedic program budget I referred to in my answer to your question on the War Victims project, for instance, falls under the 'Medical Activities' main program.) I must point out that nearly all ICRC activities involve costs from more than one program; visits to prisoners, for instance, involve medical check-ups, tracing work, nutritional evaluations and sometimes the provision of relief goods.

Because many ICRC activities for refugees, the displaced, security prisoners and prisoners of war are complex and involve action covered by other programs I cannot answer the question with exact figures. In general, however, the bulk of costs for visits to prisoners of war and security prisoners will fall under the 'Protection' main program, while the vast majority of expenses for assisting the displaced, refugees and resident populations affected by conflict will fall under 'Relief'.

In 1989 the ICRC spent SFr 58,557,000 (about $41,826,000) on 'Protection' and SFr 174,758,000 (about $124,827,000) on 'Relief'.

Assessing the needs of refugees and displaced people is also very complex, especially in the context of emergency assistance. By

definition the ICRC budget is a forecast of needs for the coming year. From experience it has become clear that the ICRC can rarely fulfil all of its objectives in a given operation because of constraints in the field. The implementation rate (total expenditures divided by total budget) was 77% in 1989.

SENATOR LEAHY: Does your organization only administer to displaced people and prisoners of war, or do you also assist refugees?

How many countries does the ICRC work in? How many displaced people are there estimated to be worldwide? Where are most of them located?

What is the primary reason they are displaced from their homes? War? Famine?

The number of refugees worldwide has risen from 10 million to 15 million in five years. How have the numbers of displaced people changed since 1985?

How do you explain this?

MR KORNEVALL: The ICRC assists victims of conflict who have needs that are not covered by other agencies. This includes refugees.

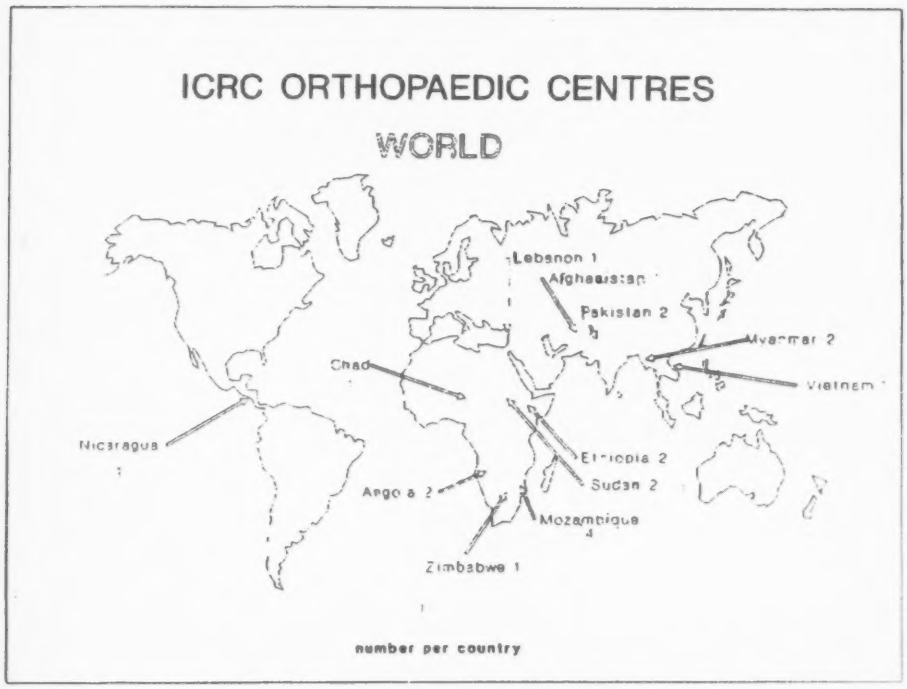
The ICRC presently has 47 delegations and 14 regional delegations. The latter cover countries where there is no ICRC delegation. With few exceptions, the number of operations corresponds to the number of delegations (there are currently two delegations assigned to operations in Angola and southern Sudan).

The ICRC does not estimate the number of displaced people worldwide. Some of the displaced do not fall under the ICRC's mandate.

The displaced, like refugees, are not all in the same situation. Many displaced people can find shelter, a job, and a new life in their new homes rather quickly, while some remain marginalised and dependent for years. This depends on local culture, tradition, ethnic factors, and whether the displaced can generally find family or friends ready to help them. Indeed, the situation not only varies between countries, it can also change with time because of the development of the conflict. Lebanon is

an excellent case in point. The needs of the displaced were relatively small for over ten years, because most found help from family or friends when they moved to Beirut. In 1989, when the conflict flared in the capital, the displaced fled in droves to other areas where there was a severe lack of infrastructure. At that point the ICRC was compelled to begin more massive relief programs for this group.

I would like to emphasize that the displaced represent just one category of conflict victims. The ICRC takes care of all conflict victims. In some conflicts, it is not the displaced who have the greatest needs, but other groups, such as residents who remain in conflict zones. In El Salvador this is true even now; most displaced people find help from family members in more secure areas, whereas those civilians who do not move face a great deal of hardship.



SUBCOMMITTEE RECESS

Senator LEAHY. And again, gentlemen, I thank you both very much. The subcommittee will stand in recess until 2:30 p.m., Tuesday, May 15, when we will hear from the Agency for International Development.

[Whereupon, at 3:39 p.m., Monday, May 7, the subcommittee was recessed to reconvene at 2:30 p.m., Tuesday, May 15.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

TUESDAY, MAY 15, 1990

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:30 p.m., in room SD-138, Dirksen Senate Office Building, Hon. Patrick Leahy (chairman) presiding.

Present: Senators Leahy, Mikulski, Kasten, and Specter.

AGENCY FOR INTERNATIONAL DEVELOPMENT

BUREAU FOR SCIENCE AND TECHNOLOGY

STATEMENT OF RICHARD E. BISSELL, ASSISTANT ADMINISTRATOR

OPENING REMARKS

Senator LEAHY. Good afternoon, unfortunately I am going to have to leave here by 3:30 p.m., to go to a budget meeting. Unless there are members who wish to remain after that time to continue the discussion, we will have to curtail the discussion, although Senator Mikulski has offered to help. And I appreciate that.

This hearing is to discuss what is rapidly becoming the most serious problem facing the world today.

Today our survival is threatened by the very fact that there are too many of us. If current trends continue the world's population will exceed 14 billion people before it levels off.

Only an heroic effort will keep that number down to 9 billion, almost twice the number of people in the world today. That would require getting contraceptives to the hundreds of millions of women who do not have them, and reducing the average number of children to two by the year 2015.

These exploding populations are putting unprecedented pressures on the environment. Imagine the consequences for the ozone, for tropical forests, for rivers, for crop and grazing land, for wildlife, of twice as many people as there are today. But that number is a virtual certainty by the end of the next century.

It threatens to undo everything we are trying to accomplish with foreign aid to support economic growth and democracy.

Controlling population growth should be a top priority for U.S. foreign policy. The administration says it does give high priority to

population programs, but the hard reality of budgets shows that it does not.

Ten years ago we spent $189 million on international population control. For fiscal year 1991 the administration is requesting $193 million. That is $75 million less than what we would have to spend to stay even in real terms with our effort 10 years ago. And that level is far below the need.

To show the priority Congress places on population, I included a $20 million increase last year. What is the response? The President's request for fiscal year 1991 is a $26 million cut in population funding.

That is completely unacceptable.

Mr. Bissell, I know AID has done good work on population. But Senator Kasten and I had to squeeze awfully hard to find that extra $20 million last year. Now the administration wants to cut us off at the knees.

I will have more to say during questions about what I believe we have to do if we are really serious about solving this problem.

Before I turn to my friend, Senator Kasten, I want to mention that we are releasing at this hearing a GAO report on AID's population programs that I requested at the beginning of this year. That report has significant things to say about how AID carries out population programs, some favorable, but quite a bit critical. There are serious problems of management, accountability, and evaluation in AID's population programs that need to be addressed.

I found what I read in it shocking. After spending years and years hearing all the discussions about how we have to tighten up in government, how we have to show responsibility in government, I do not want to see a cent of the taxpayers' money wasted. It appears that there are an awful lot of people in AID, in this area anyway, who act like they are working under some kind of an entitlement program, that the money does not come from the taxpayers and they do not particularly give a damn what they are doing with it. The kind of mismanagement of much of AID's population program is embarrassing to me as an American. To think that these are the people that go to other countries and tell them how to manage things.

PREPARED STATEMENT

Having given that cheerful start, Mr. Bissell, we are delighted to have you here, sir. I know you have a prepared statement which you can summarize so we can go to questions.

[The statement follows:]

STATEMENT OF RICHARD E. BISSELL

A.I.D.'s Population Program

A.I.D.'s Mission

Since 1965, A.I.D. has pioneered the effort for international population assistance. This effort has offered developing countries the opportunity to match population growth with economic development, improve the health and welfare of mothers and children, and help protect their environment and natural resources. A.I.D. is the pre-eminent donor in the field of population. Because of its technical and programmatic innovations, strong field presence, sustained commitment, and wide range of specialized technical assistance, A.I.D. remains the world leader in population and family planning programs.

We have provided the technical leadership in energizing private sector family planning programs, developing new contraceptives, improving the availability and quality of family planning services and information, expanding method choice to include long-term and permanent methods, advancing program-relevant research, and strengthening family planning program management. This testimony summarizes our comparative advantage, programming principles, and challenges for the future.

A.I.D. has not only been in the vanguard in terms of funding for population assistance -- accounting for about 40% of all donor assistance -- but technically, our programs have been on the cutting edge. The world looks to the U.S. for leadership in a number of areas.

- Stimulating the Private Commercial Sector: A.I.D. has been a leader in using the private commercial sector to supply contraceptives and family planning services, and provide public education through mass media campaigns.

- Contraceptive Social Marketing: A.I.D. has been the key player in stimulating the commercial market to provide low-cost, high-quality widely-advertised contraceptives by using sophisticated marketing techniques to reach a broad segment of the population.

- Contraceptive Research: At a time when support for research and development of contraceptives in the U.S. pharmaceutical industry has declined, A.I.D. has maintained a strong contraceptive development program, and has been instrumental in the later stage of the development and in the introduction of the NORPLANT® contraceptive implant, expected to be approved by the FDA this summer.

- Voluntary Surgical Contraception: A.I.D. has played a leading role in expanding the availability of voluntary sterilization, which because of its safety, effectiveness and intended permanence, is the most popular form of contraception worldwide, as it is in the United States.

- Information/Education and Communication: One of A.I.D.'s most visible and successful efforts has been in mobilizing the entertainment industry for delivering family planning messages, which have reached millions of young adults, and gained more than a billion dollars of donated radio and T.V. air time.

- Social Science and Operations Research: The donor community and developing countries depend on A.I.D. leadership in social and operations research to make family planning delivery more accessible and efficient. Under A.I.D. leadership, the world's largest population survey effort provides critical data to guide population programs and inform policy makers. A.I.D. has been supporting this survey effort since 1973.

- Strengthening Management Capabilities: A.I.D. has made a concerted effort to address the management problems that plague many family planning organizations and impede efficient and effective family planning service delivery.

A.I.D.'s Population Program Works

There is more and more firm evidence that family planning programs work. In the 28 countries that have received the largest amounts of A.I.D. population assistance, the average number of children per family has dropped from 6.1 in the 1960s to 4.5 today, a 26% decline. Fertility has dropped in every region of the world:

-- In Kenya fertility declined 17%.
-- In Zimbabwe fertility declined 14%.
-- In Thailand and South Korea: 60%
-- In Mexico and Brazil: 40%

Studies show that these declines are due largely to changes in contraceptive use. A.I.D.'s population assistance has been instrumental in bringing about these remarkable fertility declines.

A.I.D. achieved these reductions by:

- Providing family planning services. Independent studies consistently show that providing high quality services increases use of contraceptives and decreases birth rates in all countries. One recent Population Council study showed that donor-assisted family planning programs account for about two-thirds of the decline in fertility world-wide.

- Improving quality of services: Studies have shown that improving the quality of services to increase contraceptive continuation rates may have a greater impact on reducing fertility than just recruiting large numbers of acceptors. Improving service quality is particularly important for countries with advanced population programs that still need to increase contraceptive prevalence. A.I.D. will use its experience to emphasize service quality in the 1990s.

- Working with the private sector: A.I.D. was among the first in the donor community to recognize that private sector participation in family planning is critical to meeting the growing demand for services. A.I.D. has pioneered techniques to involve the private sector, such as employer-provided family planning, incorporating family planning into insurance programs and health maintenance organizations (HMOs), and social marketing of contraceptives.

Among these private sector initiatives, contraceptive social marketing has had an important impact:

- In the Dominican Republic, the commercial pill market has grown by 65%, since the social marketing program began in 1986.

- In Indonesia, the Blue Circle Marketing campaign has increased total contraceptive sales by as much as 25% to 80%, depending on the product.

Since 1985, the Contraceptive Social Marketing Project's 22 sales programs in all regions have provided 1.1 million couple years of protection (CYP).

- o Policy Development: In 1965, only nine developing countries had policies favoring lower population growth. By 1988 that number had increased to 66. Moreover, 74% of developing countries were providing direct funding to family planning in 1988. Innovative communication techniques, such as A.I.D.'s RAPID microcomputer presentations, have helped create a global atmosphere supportive of family planning.

- o Data Collection and Research: A.I.D. has supported surveys and censuses in 85 countries since 1965, providing the essential data for program development and evaluation. A.I.D.'s operations research program has made service delivery more accessible and efficient, and has helped replicate successful programs worldwide.

- o Contraceptive Development and Supply: A.I.D.-funded research has improved the effectiveness and use of oral contraceptives, the Copper-T 380A IUD, male and female sterilization, the NORPLANT® implant, condoms, and many other contraceptive methods. A.I.D. is the world's major supplier of contraceptives. Between 1967 and 1989, A.I.D. delivered $567.7 million worth of contraceptives:

-- 6.9 billion condoms

-- 1.6 billion cycles of oral contraceptives

-- 49.7 million IUDs

-- 16.5 million vaginal foaming tablets

- Communication and Training: A.I.D.'s communication projects have produced commercial hit records and videos that teach sexual responsibility and family planning while gaining over a billion dollars worth of donated radio and T.V. time. Family planning messages using all types of media have increased use of family planning clinics in all areas.

  Since the mid-1970s, A.I.D. has trained hundreds of thousands of developing country physicians, nurses, midwives, and community level workers in clinical skills, family planning management, counseling and other essential family planning skills.

A.I.D.'s Track Record Speaks for Itself

Critics of A.I.D.'s policies cite the Mexico City Policy and subsequent litigation from the Planned Parenthood Federation of America as signs that the Government's commitment and support for family planning programs are waning. Let me be clear. The Mexico City Policy does not lessen support for family planning; it simply furthers our policy not to support abortion. Although we have not provided funds to UNFPA in the past five years because of the organization's support for the Chinese population program, funds set aside for UNFPA each year since 1985 have been carefully reprogrammed for A.I.D.-supported public and private sector family planning activities.

In their recent review of our population program, the GAO questioned the priority that A.I.D. attaches to population in its approach to fostering economic development. I would like to dispel any question about A.I.D.'s lack of commitment to this issue. Indeed, fostering lower population growth rates that are consistent with economic growth is at the heart of our program. The best way to lower population growth rates is to increase the use of family planning services; therefore A.I.D.'s population program has emphasized delivering these services.

The GAO also criticized A.I.D.'s decentralized management approach. This decentralized approach is part of a conscious effort to orient programs at the local level, and a strong field presence has been one of the factors in the success of A.I.D.'s population program.

This scrutiny has had a positive impact on A.I.D.'s population program. It has given us an opportunity to reassess our approach and our programs, and has reaffirmed that our population program is necessary, vital and appropriately focused. A.I.D.'s field programs continue to provide better family planning services and greater access to contraceptives than ever before. In spite of overall funding constraints, the population budget has not suffered disproportionately. The A.I.D. population program remains highly focused, healthy, and effective.

CHALLENGES FOR THE FUTURE

Success has brought us a new generation of challenges. These include:

family planning are underway in Indonesia and Thailand. In Zimbabwe, A.I.D. support for oral contraceptives will be phased out over the next six years as the government assumes responsibility for this part of the program.

- Improving program efficiency and effectiveness: A.I.D. will carefully target its resources to insure that they are used in the most efficient and effective way. This includes exploiting A.I.D.'s comparative advantage in areas such as the private sector, social marketing, social and operations research, and management development, and complementing the work of other donors.

- New ways to stimulate the private sector: To increase the proportion of private sector versus public sector funds invested in family planning, A.I.D. plans to use financial transfers such as debt conversions, corporate blocked funds, and credit to private health providers. Private health care providers will be encouraged to take on a greater role in delivering family planning services. A.I.D. will also work to reduce trade and investment barriers which will permit increased trade and sustainable local production of contraceptives.

- Population and the environment: High rates of population growth place enormous pressure on the environment, and slowing these rates must be a central part of any strategy to halt the destruction of the environment. Building on the momentum of the global environmental movement, A.I.D. will expand its effort to increase support for population activities and insure that population is a priority agenda item for

- Meeting the escalating demand for family planning: While A.I.D. has been very successful in providing quality services to those who want them, conservative projections indicate that demand for family planning services in developing countries will increase by 75% between 1990 and 2000 and by another 50% by 2010. Instead of A.I.D. and other donors trying to fill this gap themselves, A.I.D.'s approach will focus on: leveraging private sector resources; where appropriate, shifting the financial burden from the public sector to the private sector; offering technical assistance to help advanced developing countries buy their own contraceptives on the world market; working with other donors to increase their support for contraceptives and family planning activities and to coordinate program implementation; and building strategies for self-sufficiency into all family planning programs.

- Promoting Self-Sufficient Programs: In a careful, measured fashion, A.I.D. is developing projects which will encourage and assist developing countries to assume greater financial responsibility for the provision of family planning services. In a number of advanced developing countries (e.g. Tunisia, Thailand and Indonesia), A.I.D. assistance combines cost-containment approaches with revenue-generation strategies which will help governments and private sector organizations achieve self-sufficiency in family planning service delivery. Tunisia currently covers 90 percent of its total family planning program costs and has begun in 1990, with A.I.D. assistance, to procure most of its own contraceptives. Promising privatization programs in

environmental groups. Policy dialogue efforts with developing country leaders from over 50 countries have raised awareness of the important linkages between population and the environment. A.I.D. will continue these efforts, and will expand the dissemination of information on the important and detrimental impact population has on the environment.

- o Measuring program impact: A.I.D.'s population program has several built-in monitoring and evaluation mechanisms. Couple years of effective protection and cost per new or continuing acceptor are two measures that A.I.D. uses to monitor and improve the efficiency of its family planning service delivery programs. In an effort to strengthen and expand our program evaluation efforts, we are creating a new unit for evaluation in our central Office of Population, which will more effectively utilize the wealth of information available from our research projects. This responds as well to concerns raised in the recent GAO audit.

Conclusion

A.I.D. has proven to be an innovator in family planning. It has demonstrated commitment and flexibility in its approach, and has consistently been the largest donor in population. Our commitment to and leadership in this critical area will continue as we make the best use of our competitive advantages and address the challenges ahead. In his confirmation hearings last February, the Administrator stated:

> I want to increase the impact of the [population] program. The international community has quite ambitious targets for

family planning, and A.I.D. ought to remain an active leader in achieving that degree of impact ... I would certainly argue personally for a robust voluntary family planning program, and hope to have the resources to support it.

Congress has given A.I.D.'s population program strong bipartisan support over the last 25 years. Congressional support has been well-placed and essential for maintaining a robust program. A.I.D. looks forward to a continuation of this support in the future.

SUMMARY STATEMENT

Mr. BISSELL. Thank you, Mr. Chairman. It is good to be back.

I will not read my statement, and would appreciate having it inserted in full in the record. I would like to make a few comments consistent with the title of this hearing and what I understand to be the thrust of your concerns, particularly those issues that were raised in the GAO report.

We had seen the GAO report in draft, responded to it, but have not seen the final. So we had very substantial reservations about a number of the findings that were in the draft and hope that over time these will be resolved both with GAO and the members of this committee. Your concerns and your oversight of our family planning program matter to us very much. And we feel a very special responsibility that the program be administered the way you would expect it to be.

Senator LEAHY. To help you in that regard, I will hold this part of the record open to allow you to respond with any material you want referencing the GAO report, once you have had a chance to review the final draft. It would not be fair to ask you to give a detailed response to it today. But certainly I want you to know that the record will be kept open so that you can supply whatever you want for the record.

Mr. BISSELL. I appreciate that very much.

[The information follows:]

AID RESPONSE TO GAO REPORT, FOREIGN ASSISTANCE: AID'S POPULATION PROGRAM

The following constitutes AID's response to the General Accounting Office's final report entitled "Foreign Assistance: AID's Population Program." In response to the draft report, AID expressed disagreement with several points made by the GAO. The GAO has included AID's comments on the draft report as Appendix I to the final report but has downplayed or ignored many of AID's comments in the text of the final draft. Despite AID's attempts to clarify aspects of the Population Program that the GAO appeared to misunderstand based on the draft report, the final report continues to reflect misconceptions.

In the final report, the GAO adds a new statement that "AID has no projects specifically directed toward motivating people to have fewer children." Reduction in family size results when people choose to adopt family planning, and creating conditions that will enhance people's motivation to adopt family planning is a primary

focus of AID's Population Program. Motivation to adopt and continue use of family planning will occur only when people perceive a convincing and acceptable rationale for adopting family planning, have the prerequisite knowledge for engaging in family planning, have access to quality family planning services and supplies, and have positive experiences when adopting family planning behavior. All of AID's population projects either directly or indirectly contribute essential links for building motivation to use family planning.

Indeed, one population project, the Johns Hopkins University's Population Communication Services Project, has as a major focus motivating people to have smaller families and has incorporated family planning motivational messages into a variety of media, including posters, popular songs, and television and radio soap operas, in developing countries in all geographic areas. For example, a poster produced in Jamaica reads "Two Is Better Than Too Many," one in Nigeria reads "Too Many Children Leads to Hunger, Poverty, Wretchedness, and Misery. Visit Your Nearest Family Planning Clinic," and one in Ghana reads "Too Many Means Pressure on Water Facilities." An implicit assumption in the GAO report is that similar messages should be done elsewhere. However, AID is careful that these messages are supported only in places where they are culturally acceptable.

In addition to projects within AID's Population Program, other AID programs also serve to support reduction in population growth. Programs promoting education and literacy of women, health and child survival, and nutrition make efforts that are mutually reinforcing to those of AID's population program.

Statements in the GAO report suggest that the GAO does not fully recognize the political, social, cultural, and religious complexities involved in motivating people to have fewer children. Family size is a delicate issue in many developing countries. Consequently, progress in this area requires an approach that is carefully planned, comprehensive, and highly sensitive to local conditions, an approach to which AID is strongly committed.

Regarding the GAO's criticisms about AID's management information system, AID feels that the GAO did not fully appreciate the system currently in place. The central Population Program's management information system has collected data on regional and bilateral project expenditures since 1986, and does enable AID to track total population assistance efforts by country. In addition, AID's NEWVERN data system tracks all contraceptive purchases, whether funded centrally or from bilateral funds.

The central management information system also provides extensive information on centrally-funded, in-country activities including data on location, kind of activity, type of host institution carrying out the activity, objectives, etc. These up-to-date data can be sorted as desired by these variables, thus allowing the user of the system to identify instances in which activities are not in accord with objectives and in turn to make mid-course corrections as necessary in project activities. AID is the only donor in the population field with a management information system having this capability.

In addition to the existing population management information system, the Agency has recently begun to use the Activity Classification/Special Interest Codes (AC/SI) system which is an agency-wide system that tracks the primary objectives and special AID concerns for all projects by obligation levels. Project level information is collected for all accounts and can be analyzed by country or region. This system will become an integral part of the planning and budgeting process within AID.

Regarding the GAO's criticisms of AID's evaluation efforts, AID recognizes the need to evaluate its program efforts more systematically and is in the process of creating a formal evaluation unit within its central Office of Population. Within that unit, as well as within the context of existing evaluation mechanisms, increased attention will be given to impact evaluation, particularly at the country and program level. Nonetheless, the GAO downplays the evaluation efforts AID has in place. Even prior to the GAO study, the Agency's Center for Development Information and Evaluation (CDIE) had begun plans for impact evaluations in Kenya, Tunisia, Honduras, and the Philippines; an Office of Population Evaluation Working Group had been established; and the Office of Population had supported creation of a task force to establish performance standards that could be used across projects. Moreover, the GAO ignored evaluations being carried out by country missions to assess the impact of AID's bilateral projects. Because the GAO did not visit overseas missions, they were unable to take a complete look at all evaluations done by AID at the country level.

This last point leads to one final but overarching concern that AID has about the review done by the GAO. Because the GAO made no contact with missions or

projects overseas, AID feels that credibility of their entire report must be questioned. The GAO criticizes AID's approach to evaluation; yet in evaluating AID's activities, it uses an approach analogous to a doctor's diagnosing a patient's illness without seeing the patient. Thus, although AID acknowledges the validity of some of the GAO's criticisms and is committed to working to rectify deficiencies, AID feels that the GAO has itself not lived up to a standard that it expected AID to maintain.

POPULATION GROWTH

Mr. BISSELL. We have, of course, been watching the projections of population growth in the world over the next century closely, and they concern us as deeply as the members of this committee. We monitor in those projections and, indeed, the gross numbers are ones that should cause any thinking person a great deal of concern.

At the same time, I think we have to be cognizant of the fact that we have made strides over the last 20 to 30 years. It is notable, and I cite this in my testimony, that the average number of children in the 28 principal countries assisted by AID, in developing countries, has dropped from over six children in the 1960's to 4.5 today—which is a 26-percent decline.

And insofar as our focus in programming necessarily has to be upon couples, that kind of decline is very important and bespeaks potential progress in the future as well. That is not to mitigate the fact that overall numbers are inevitably going to grow significantly, and, as I say, it causes us concern, not simply in terms of family planning, but in terms of the kinds of demands it will place on the resources, the development prospects, the future economies and the social fabric of developing countries and the world at large.

What I would point out, and I do go into considerable length on this in my testimony, is that in facing this challenge, AID has certain comparative advantages. I wish to address this.

The potential requirements of the population growth creates a challenge not just for the United States and for AID, but for the world at large. It is a challenge for people and governments in developing countries to take responsibility, themselves; for other donors, whether multilateral or bilateral, to become even more involved, and indeed for us to hone in where we can have the greatest impact. I cite seven areas in my testimony, where AID can bring advantages to bear.

AID'S RESPONSE TO POPULATION GROWTH

The first area is stimulating the private commercial sector. The sustainability of family planning programs over the long term has to mean the creation of mechanisms to make it possible for the average citizen to be able to obtain adequate family planning services through his or her own initiative.

The second is contraceptive social marketing. Americans have refined issues of marketing to a remarkable extent. If we can market Coca-Cola around the world, we ought to be able to market family planning as well. We have made considerable strides in this and look forward to future progress as well.

A third is in the area of contraceptive research. We look forward to progress on Norplant, which is on track for Federal Drug Administration approval. We look forward to maintaining research in other aspects of family planning as well.

A fourth is voluntary surgical contraception. We are in the process of expanding the availability of voluntary sterilization because it is safe, it is effective and it is the most popular form of contraception anywhere in the world, including the United States.

A fifth area would be information, education and communication. In the last few years there have been some fascinating innovations with enlisting highly popular singers who can appeal to people of young age groups in areas as diverse as Mexico, Nigeria, and elsewhere.

The sixth is in the area of social science and operations research, in terms of making family planning systems work effectively and efficiently. We have certainly brought together under AID leadership the best in the way of research in terms of making overall family planning systems work.

And, last, is strengthening management capabilities. AID has made a concerted effort to address management problems. In this kind of program, in family planning in developing countries, we simply cannot afford waste. The challenge is too great and the resources are too scarce. They all need to be brought to bear very efficiently in terms of the challenge we face.

With that, I would like to turn over the time to questions and answers.

Thank you.

Population Crisis Committee

STATEMENT OF SHARON CAMP, VICE PRESIDENT OF THE POPULATION CRISIS COMMITTEE

Senator Leahy. I think what might be helpful, because some of the questions will bear repeating, we have Sharon Camp and Lester Brown here. Why do I not have testimony of the both of you before questions—because I think some of the questions that we will ask will probably be the same for all of you. The questions may be the same, the answers may possibly differ. Go ahead.

Dr. Camp. Thank you, Chairman Leahy, Senator Mikulski, and committee staff. I appreciate the opportunity to testify today. My name is Sharon Camp, and I am vice president of the Population Crisis Committee.

I want to make five points very quickly, and if my temporary assistant, Fred, will put up the first chart, all of these points are illustrated by the charts and graphs which are mounted on panels and also in my testimony.

My first point, Mr. Chairman, is that recent trends in human population growth have no historical precedent. On the table that you see before you, we have tracked 1,000 years of human population growth, from approximately 1000 A.D. On the vertical axis is the world's population in billions of people. As you can see for roughly the first seven centuries of this millennium, world population grew hardly at all, and in no year, more than about 0.5 percent a year.

During the Industrial Revolution, as you can see on the chart, population growth picked up a little bit, reaching in some cases in Europe, as high a rate as 1.5 percent a year.

If you look at the line drawn horizontally across, you will see that in 1989 we were at a population of about 5.2 billion. It took from the beginning of time to about 1830 to reach 1 billion people. The second billion was added in about 100 years between 1830 and 1930, the third billion in just 30 years, between 1930 and 1960, the fourth billion in 14 years, the fifth billion in 13 years. And the sixth billion will be added in just under 11 years.

If we can have the second graph.

My second point, Mr. Chairman, is that virtually all recent population growth has occurred in the poor countries of the world, which are least able to accommodate rapid demographic change. On this table, on the vertical bar graphs, you see total world population. The dark portion of the graph represents the population of the now-industrialized countries, beginning in 1955 and going—these are projections now—to the year 2020. Since 1960, 85 percent of all population growth has occurred in the developing countries, and in the decade of the 1990's, 94 percent of population growth will occur in these developing countries.

One of the consequences, if we could have the next chart, of rapid population growth is that this has become a major obstacle to efforts to alleviate poverty and also to reverse increasingly rapid rates of environmental degradation. As you can see on this map of the world, the dark areas are the remaining areas of tropical forest. Those areas of tropical forest are all surrounded by countries whose doubling time for population is 35 years or less.

If we could have the next chart, please.

My third point is that actions which are taken, or not taken, in the decade of the 1990's will largely determine demographic trends for the next century. This will largely determine whether we can stop population growth at approximately double its current level or at triple its current level.

Table IV shows two dramatically different scenarios for population stabilization. The lower line represents what is probably now the best case scenario, which is a stable world population of about 9.3 billion in the year 2095. The top line represents the current demographic trajectory if we made progress at no more rapid a rate in the 1990's than we did in the 1980's we would not stabilize world population at below about 14 billion people.

The lower scenario would require us to reach a worldwide average of a two child family by the year 2015, and that, in turn, would require that by the end of this decade, three-quarters or 75 percent of couples of child-bearing age would need to be using some method of family planning.

The price tag for that lower population growth scenario, we estimate to peak in the year 2000 at $10.5 billion. The U.S. share of that would probably be, appropriately, about $1.2 billion, and if we were serious about meeting those targets, we would need to increase population assistance levels immediately to about $500 million.

My fourth point is that the demand for family planning in developing countries is already sufficient to bring about dramatic declines in birthrates, if good quality family planning services were universally available. Recent surveys, some of them conducted by AID, suggest that women in many Asian and Latin American coun-

tries—75 percent of them—already would like to use modern contraceptives to space or stop child-bearing, but in many countries, one-half or more of the women who want no more children are not using an effective, modern contraceptive. And as you can see from the chart, in parts of Africa and the Middle East, that percentage goes up above 80 percent.

My final point, Mr. Chairman, is that worldwide spending on family planning has failed to keep pace with increased demand for family planning. And with the increase in the number of reproductive-age couples, U.S. population assistance is, on a per-couple basis, in constant dollars, worth less than one-half of what we provided in the early 1970's.

If organized family planning programs in the 1990's are as resource constrained as they have been in the 1980's, and if, as a result of that, fertility declines are no more rapid than they were in the 1980's, then there is probably nothing we can do to prevent a tripling of the world's population in the 21st century.

PREPARED STATEMENT

In this case, we will leave to our children and grandchildren, a world far less habitable than the one we inherited. And the choice is ours. And the decade of the 1990's will be the decisive one.

Thank you, Mr. Chairman.

Senator LEAHY. Thank you very much.

[The statement follows:]

STATEMENT OF SHARON L. CAMP

Chairman Leahy, committee members, thank you for the invitation to testify today on trends in population growth and resource needs for family planning. I am Sharon Camp and I am Vice President of the Population Crisis Committee (PCC).

PCC is a private nonprofit organization which has, since its establishment in 1965, been a leader among population organizations in efforts to strengthen political and financial support for family planning overseas. Our work involves high-level advocacy at home and abroad to increase government commitment and also selective support of innovative private family planning programs in developing countries. It is perhaps important to state that we receive no US government money for any part of our programs. Thus, while we may express strong opinions about the direction of US population assistance, these comments are not motivated by any fiduciary interest in the program.

I wish to make only five brief points, each illustrated by one or more graphs and charts.

1. Recent trends in human population growth have no historical precedent.

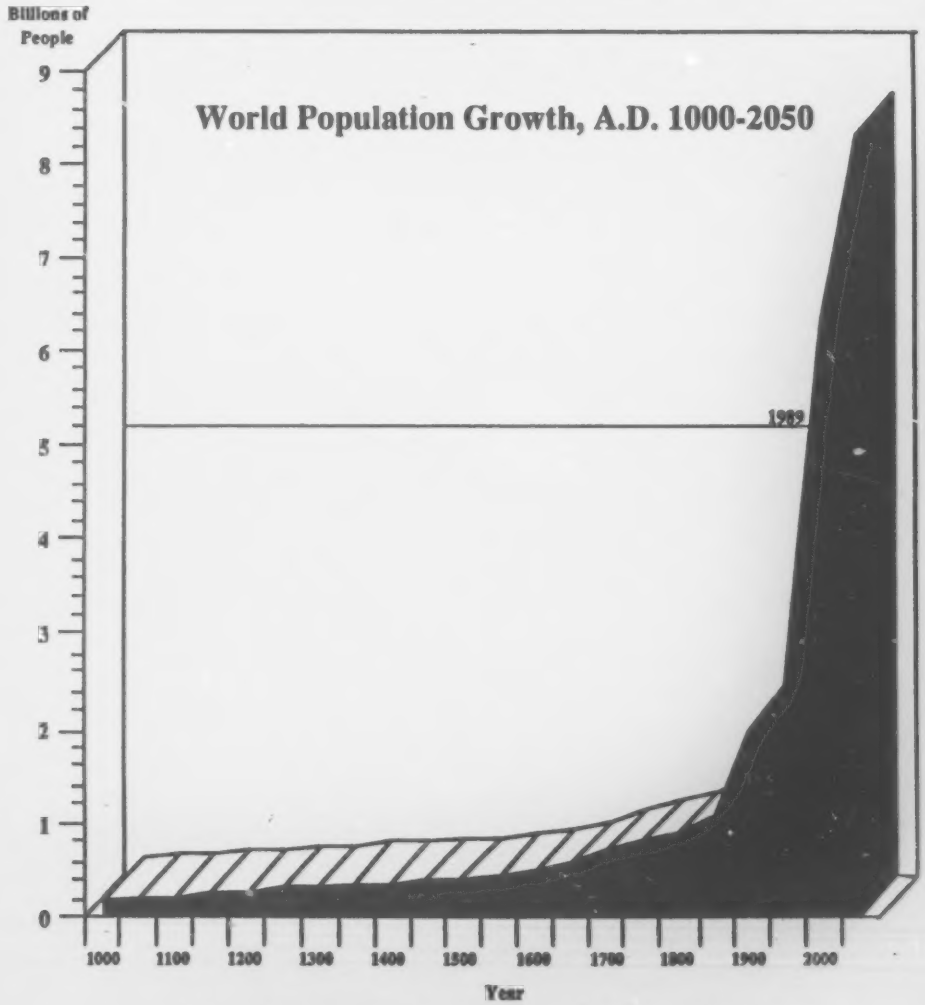
For the first several million years after homo sapiens appeared on earth, human populations probably never exceeded 5 million. For comparison, note that the current population of Mexico City is 19 million people.

Human populations began to increase slowly about 10,000 years ago, with the agricultural revolution. By the birth of Christ human numbers had grown to an estimated 250 million -- currently the population of the United States.

Between the birth of Christ and about 1830, population quadrupled to one billion. About a century later population had doubled to two billion, spurred on by the industrial revolution.

However, it took just 30 years -- from 1930 to 1960 -- to add the third billion; 14 years to add the fourth billion and 13 years to add the fifth billion. Adding the sixth billion will take only 11 years. (See Table I.)

Current Levels of Population Growth Have No Historical Precedent



It took from the dawn of time to the year 1830 for the world to achieve a total population of one billion. By 1930, that figure had doubled to two billion. By 1976, it had doubled to four billion. It is projected to exceed nine billion by the year 2050. World population is now growing by 93 million a year, almost a billion a decade.

Table I

At current birth and death rates world population would double in just 39 years. The populations of many African countries would double in just 20 years.

The unprecedented speed of demographic change in the last half of the 20th century is one of the driving forces behind the increasing momentum of global environmental change. As former Council on Environmental Quality head Russell Peterson told the recent Conference of Governors:

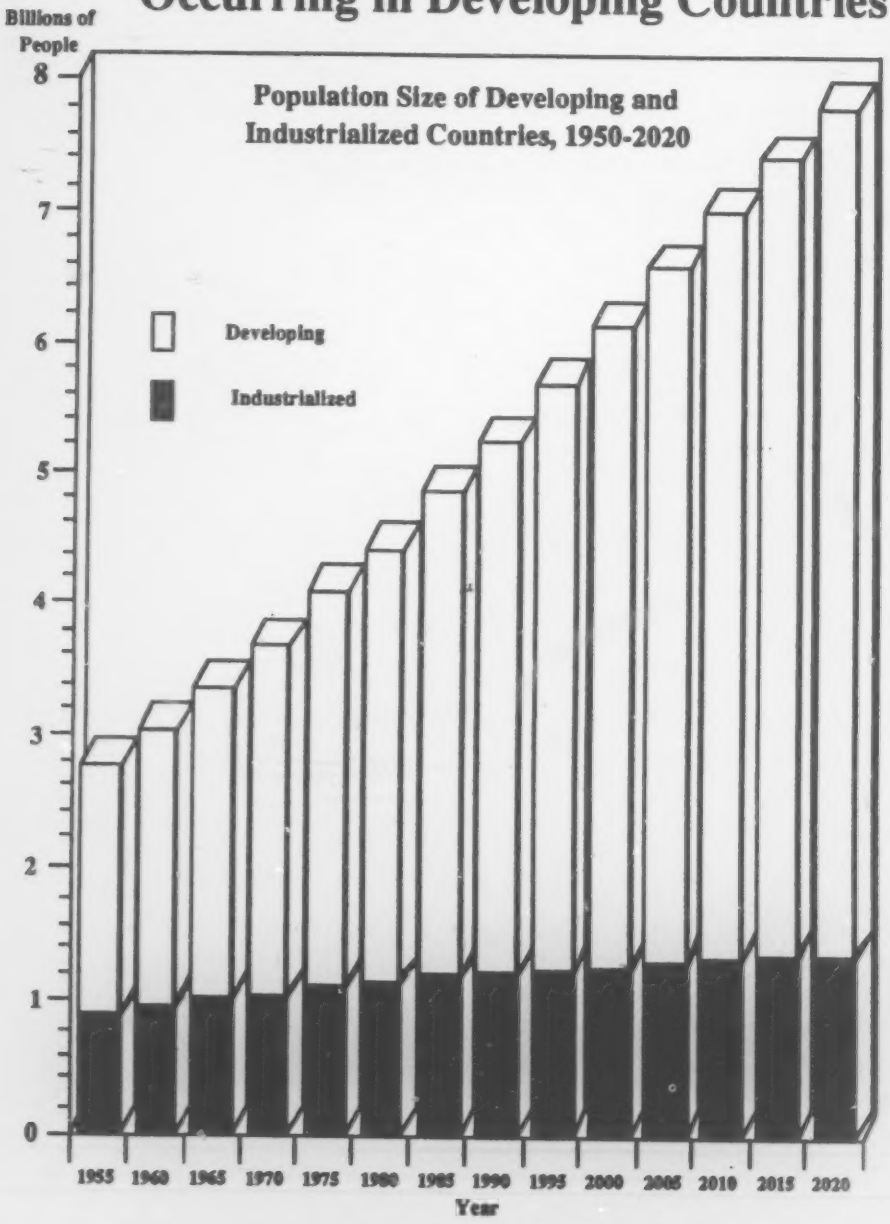
> ". . . The quality of all life on earth is increasingly threatened by a powerful and growing ecological force. We humans are that force, ever more of us using ever more materials, assaulting the environment with ever more machines, chemicals, weapons and waste."

2. Recent population growth has occurred almost entirely in the world's poor countries which are least able to accommodate rapid demographic change.

Since the end of World War II over 85 percent of population growth has occurred in the developing countries of Africa, Asia and Latin America, where the wider availability of antibiotics, vaccines and insecticides, along with improved sanitation and nutrition has caused death rates to plummet. (See Table II.) Although birthrates have also begun to decline in most parts of the world, many developing countries still have population growth rates above three percent a year. This is at least double the population growth rate experienced in Europe during the Industrial Revolution, at a time of rapid expansion in economic activity.

Over the coming decade the world's population will grow by between 90 and 100 million people a year and 94 percent of the growth will occur in developing countries.

Most Population Growth is Occurring in Developing Countries



Since World War II, the majority of all population growth has occurred in developing countries. While industrialized countries have population doubling times of 100 years or more, most countries in Africa, Asia and Latin America are experiencing population doubling times of just 18 to 35 years.

Table II

Rapid population growth has been and will continue to be a major obstacle in efforts to alleviate poverty and to reverse environmental degradation in developing countries.

According to the United Nations State of World Population 1990 Report, released today:

- The number of severely malnourished people now stands at 512 million, up from 460 million in 1980.

- The number of adult illiterates has climbed to 889 million, from 460 million in 1970.

- The number of people who lack safe sanitation is now 1.7 billion, up from about 1.0 billion in 1970.

- Of the 94 developing countries for which data are available, cereal production has declined since 1980 in 51 countries.

- Since 1985, for every 100 new urban households, only 38 permanent dwellings have been built. In Africa 92 out of every 100 new urban families live in shanties or slums.

- An estimated 15 to 18 million acres of agricultural land are made unproductive each year because of erosion.

- At least 28 million acres of tropical forest -- an area the size of Austria and Belgium combined -- are cleared annually to expand farmland and provide fuelwood. Remaining tropical forests are in countries with population doubling times of 35 years or less. (See Table III.)

The Global Environment is Threatened by Rapid Population Growth

The world's tropical forests are surrounded by countries with population doubling times of less than 35 years.

Table III

- Air and water pollution in developing countries are becoming serious threats to human health and will add significantly in the future to global environmental problems. If past trends in energy use continue, for example, developing countries would emit 16.6

billion tons of carbon dioxide annually by 2025, four times as much as industrialized countries emit today.

3. Actions taken in the decade of the 1990s will largely determine whether population growth can be stopped at double its current level or triple its current level.

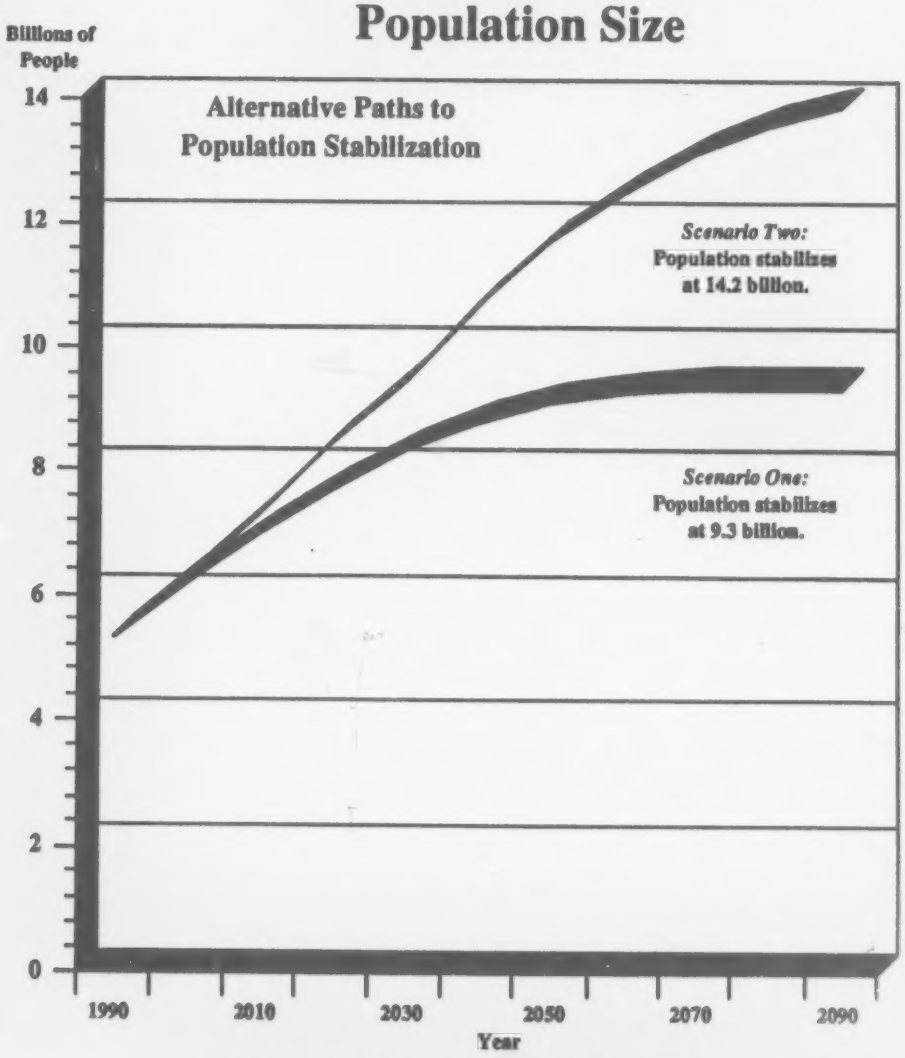
In 1981, the United Nations Population Division made three alternate projections for a stable world population -- a low, a medium and a high. Because birthrates in most countries declined more slowly in the 1980s than in the 1970s, the low variant projection of a stable world population of 7.7 billion people is no longer a possibility without very substantial increases in death rates.

The medium variant projection of 10.2 billion is still possible, but just barely. Current population trends most nearly approach the UN's high variant of a stable population of 14.2 billion in the 22nd century.

Under what is now perhaps the best case scenario, world population could be stabilized by the end of the next century at about 9.3 billion. This could be achieved if a wide variety of safe and effective family planning methods could be made universally available by the end of this decade, along with a few other measures to help encourage their use.

If by the end of the 1990s some 75 percent of the world's fertile-age couples practiced family planning (including the less effective methods), then by 2015 the world would reach replacement level fertility with a two-child family average. (If all couples used highly effective methods, the two-child family average could also be achieved with drastically reduced levels of abortion.) By 2050 the world's population would stand at 9 billion, growing slowly to a stable population of about 9.3 billion. (See Table IV.)

Current Funding Commitment Determines Tomorrow's Population Size



The ultimate size of the world's population will depend on future levels of population funding. With a dramatic increase in family planning expenditures, fertility could reach replacement level by 2015 and population could stabilize by 2095 at 9.3 billion. If average family size does not reach 2 children per couple until 2060, world population will climb to over 14 billion before stabilizing around 2120. Without any decline in fertility, world population would top 36 billion by 2120.

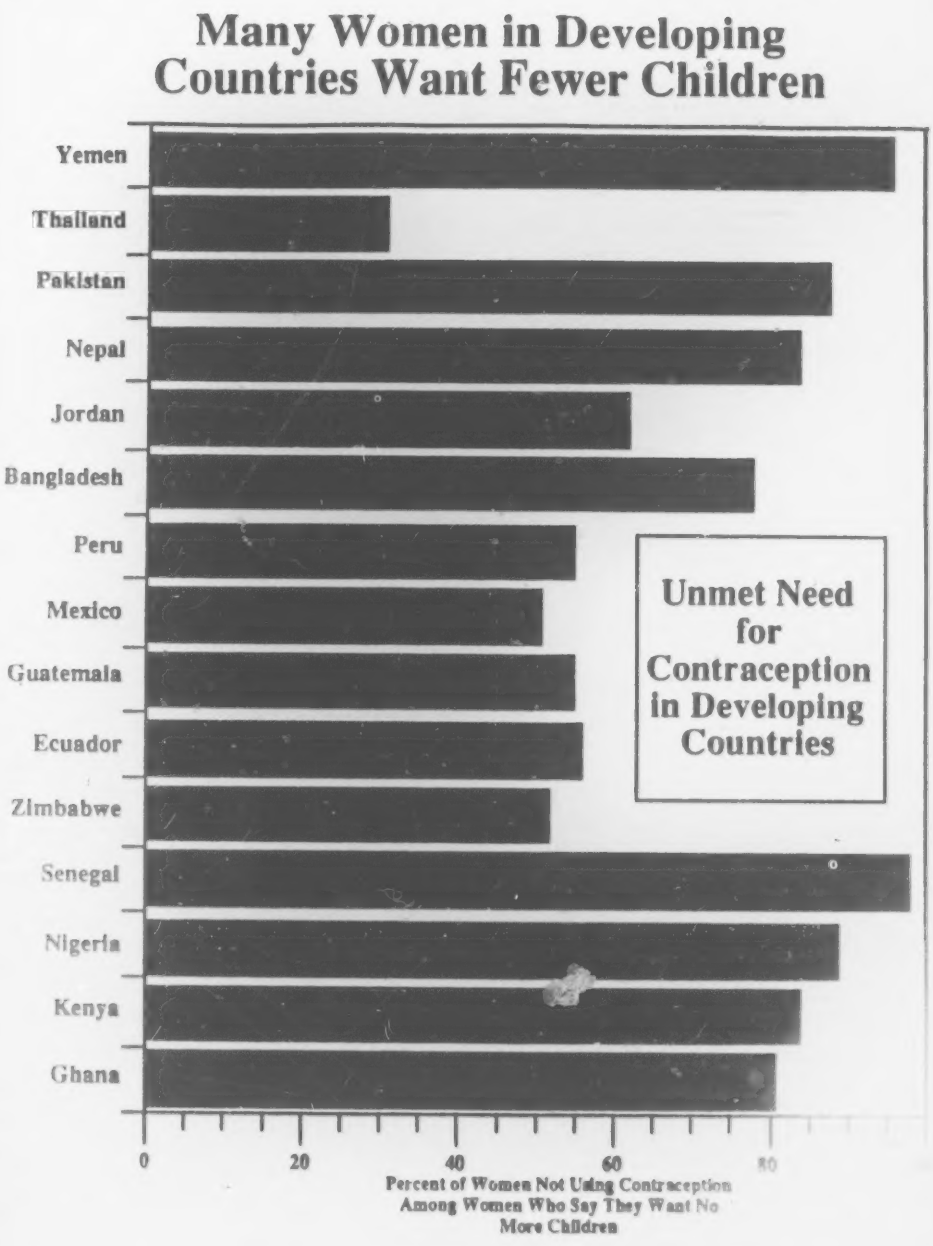
Table IV

Based on estimated current average costs for developing country family planning services and related programs -- about $16.00 per fertile-age couple per year -- the global budget required to meet these targets would reach a high of about $10.5 billion annually by the year 2000. If donor countries together were to provide half the total cost, the United States' share would be slightly over $1 billion in the year 2000. To meet these financial goals current levels of US population assistance should be at least $500 million. It is perhaps useful to note that President Carter's proposed population assistance budget for fiscal year 1982 was $345 million. Adjusted for inflation, that figure would today equal $519 million.

4. The demand for family planning in developing countries is already sufficient to bring about dramatic declines in birthrates if good quality services were available.

The most recent demographic surveys suggest that 75 percent of women in most Asian and Latin American countries would use modern contraceptives, if they were easily available, to delay their next pregnancy or to stop childbearing entirely. In most developing countries, half the women, on average, who say they have all the children they want are not using a contraceptive. In many African and Middle Eastern countries the portion is over 80 percent. (See Table V.)

The evidence from 25 years of experience in organized family planning programs also indicates that good quality services, leading to a core of successful satisfied users in a community, create additional demand for birth control. With consistent political support and creative public education efforts, good quality family planning services can produce very rapid changes in reproductive behavior, even in communities with fairly low levels of education and income. However, good family planning programs and other successful development



In many developing countries a large percentage of women who want no more children do not have access to affordable birth control.

Table V

interventions are synergistic, especially where development programs include women as full partners and where they create real economic opportunity for the poor majority.

One can cite more than a dozen developing countries which have already achieved very rapid birthrate declines -- in rank order, China, Taiwan, South Korea, Thailand, Singapore, Indonesia, Sri Lanka, Tunisia, Turkey, Mexico, Costa Rica, Colombia, Brazil, and most recently, Zimbabwe, Botswana and Kenya. But perhaps the most impressive success story in many ways is Bangladesh, since it would seem one of the least likely places for progress to occur.

In 1988, the Population Crisis Committee ranked 99 countries on 20 measures of women's status. Bangladesh was at the very bottom.

- In Bangladesh, women's life expectancy is 49 years and women live 2 years less than men.

- One in five girls dies before age five.

- Almost 70 percent of girls 15 to 19 years old are married.

- Only one in three school-age girls is in school and 24 percent more women than men are illiterate.

Despite these grim statistics, and the fact that 40 percent of the country is under water for part of every year, to mention only one of many logistical obstacles, Bangladesh has managed to deliver family planning services to a growing portion of its population. Over 30 percent of fertile-age couples are now using contraception and in areas with very high quality services, the level is 45 percent.

In 1975 almost 30 percent of women said family size was the will of Allah. Today, only 8 percent hold such fatalistic views about childbearing.

In 1975 Bangladeshi women said, on average, that they wanted 4.1

children, while they actually had an average of seven children. Today, women under age 20 say they want only 2.5 children.

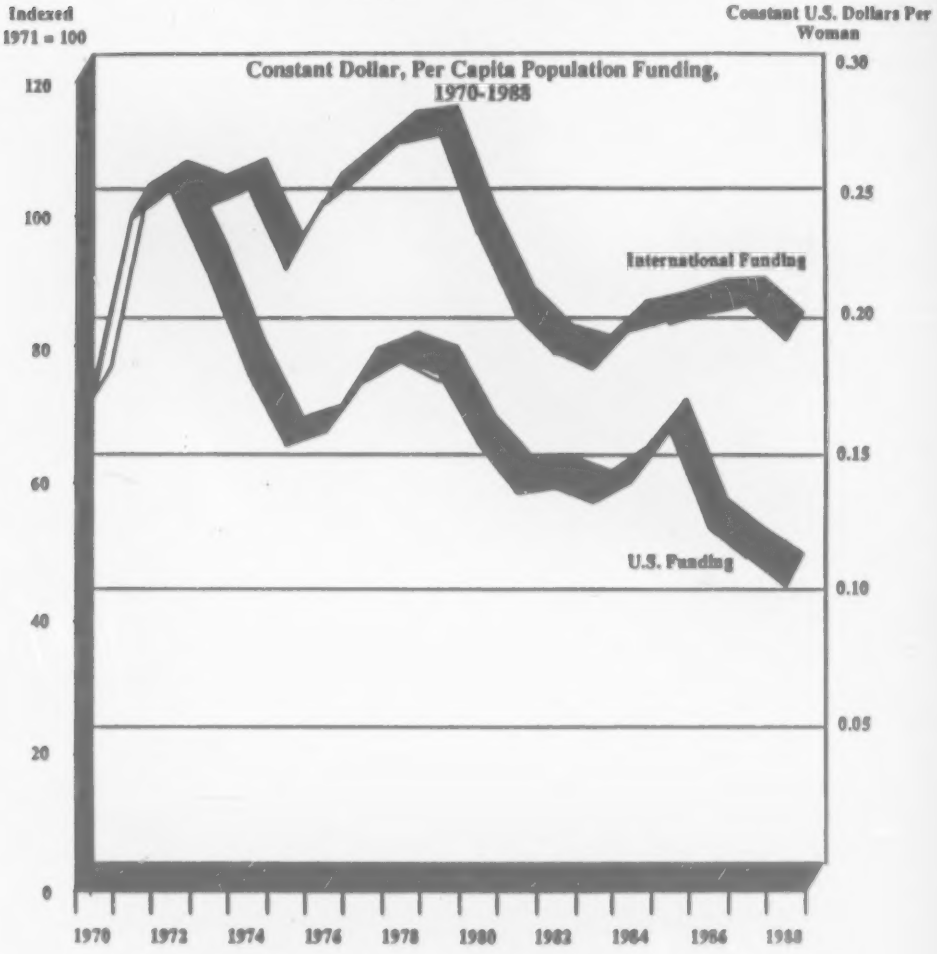
Bangladesh still has far to go to solve its population problem, and its program is far from perfect. But its experience shows that organized family planning efforts can produce fertility declines even under very adverse social and economic conditions. It is disturbing to hear that AID may reduce its assistance to Bangladesh by as much as half in the next several years.

5. Worldwide, spending on family planning has failed to keep pace with increased demand and with the increase in numbers of reproductive-age couples; US population assistance currently provides less per couple in constant dollars than was provided 20 years ago.

Total expenditures on developing country family planning programs are estimated for 1988 at $3.2 billion. Donor countries provided only $659 million of this amount, including contributions by private philanthropic organizations and multilateral development banks. Over $1.6 billion of the total was accounted for by government expenditures in China and India.

Donor country assistance to family planning programs peaked, on a per-couple basis, in the late 1970s, in large part because of substantial annual increases from the United States. (See Table VI.) Total assistance per couple remained essentially flat in the 1980s, again mirroring to a large degree trends in US population assistance. Few developing countries have been in a position, over the last decade, to make up the shortfalls in donor assistance. Many have, in fact, reduced expenditures on family planning as part of overall efforts to curb government spending. Programs in many countries have thus fallen far behind the growth in demand for fertility control.

Population Funding is Now at a Twenty Year Low



Per capita family planning contributions, in constant dollars, have sharply declined in the last decade. While total international family planning contributions declined by over 18 percent between 1971 and 1988, annual U.S. contributions declined more than 55 percent in constant dollars.

Table VI

Over the coming decade, the number of reproductive-age couples in developing countries will grow by 18 million each year. To increase worldwide contraceptive use in the year 2000 from the present average of 55 percent to the 75 percent needed for eventual population stabilization, an additional 357.6 million couples will need to find

affordable contraception. If organized family planning programs remain resource-constrained during the 1990s and if, as a result, the pace of progress in this decade is as slow as that in the 1980s, there is probably nothing we will be able to do to prevent a near tripling of the world's population in the 21st century. In this case we will leave to our children and grandchildren a world very much less habitable than the one we inherited. The choice is ours to make, and the decade of the 1990s will be decisive.

WORLDWATCH INSTITUTE

STATEMENT OF LESTER R. BROWN, PRESIDENT, WORLDWATCH INSTITUTE

Senator LEAHY. Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman.

I was asked specifically to focus on the relationship between population growth and environmental degradation. And in support of that, I would like to submit as testimony, some selected sections of chapters from our "State of the World" report that deal with this specific issue, including one three-page section that was not in the original submission.

I would like to look at the population/environment relationship, not as a demographer but as an ecologist.

When population growth starts in a developing country, it sets in motion a series of changes. And how societies respond to those changes determine whether living conditions improve or deteriorate.

There is almost a syndrome that one can now see in looking at developing countries over the last few decades. And I have been traveling and living in developing countries in villages beginning 34 years ago, so I have had a chance to watch some of this unfold.

The first thing that happens as population growth increases, is that after a point, it begins to—the demand for firewood begins to exceed the sustainable yield of forests, and the forests begin to recede from the villages. As the trees begin to disappear in the country, a basic nutrient cycle is disrupted, the one that centered around trees, with leaf drop representing both nutrients and organic matter.

As firewood becomes more scarce, then villagers begin burning cow dung and crop residues for fuel to cook with. At this point, another nutrient cycle is disrupted, and soil fertility and soil structure both begin to decline. As the tree cover disappears and as the structure of the soil deteriorates, both increase rainfall run-off. This has two immediate effects. One is to increase soil erosion. The other is to reduce aquifer recharge, because the rainfall is running off instead of percolating downward.

And then this sets in motion yet another series of changes that are not yet well understood, but if I can use sort of a junior high school science model, trees and clouds have a symbiotic relation-

ship. Trees take liquid water from within the Earth, and through transpiration, convert it into water vapor. That vapor in the atmosphere takes the form of clouds and under the right conditions, creates precipitation. So trees and clouds create their own, sort of, hydrological cycle.

If you take the trees out of that system, you obviously are affecting that cycle. And what that leads to, in many parts of the world, is a drying-out. That is what we are now seeing in large areas of Africa. The rainfall patterns are shifting as the vegetation disappears, which comes as no great surprise, but that is exactly what is happening. And it is creating millions of environmental migrants.

Once this process is underway, it tends to feed on itself. And in order to, sort of, illustrate it graphically, if you will turn to page 24 in the submitted testimony, we constructed a graph of the relationship between population size and fuel wood demand and tree cover in the Sudan. And what this shows, and this is using World Bank data, is that in 1965 the demand for fuel wood began to exceed the sustainable yield of forests. At that point, the forests begin to shrink. After about 20 years a country loses about 20 percent of its forest, giving prevailing rates of population of something like 3 percent.

During the next 20 years, however, after the lines have crossed, all of the trees disappear. And this is the model for the Sudan. We could have labeled it Africa just as well, or almost any third world country once the demand for firewood exceeds the sustainable yield and population growth continues to be rapid.

The discouraging thing is that all too many countries are now in the situation where the demand exceeds the carrying capacity of local biological support systems, whether it is grasslands or forests, or what have you. It is most easily measured with forests.

Population growth sets a series of changes in motion. And at some point, societies have to decide whether to accept the degradation of life support systems, which will eventually undermine their economies and lead to falling living standards, or to try to get the brakes on population growth and reverse the deterioration. The further the process goes, the more difficult it becomes.

One of the charts that I have in my prepared testimony, is one that shows per capita grain production in China and Africa from 1950 up until today. And what it shows is that around 1970, both Africa and China were in a very similar situation. But there was a big difference in how these two important parts of the world responded to rapid population growth. Most African countries did nothing. The result is, in effect, the Ethiopian model—increasing hunger and malnutrition, famine becoming chronic and, indeed, in some areas, at least temporarily checking population growth. China, by contrast, got the brakes on population growth and has seen grain production per person increase by roughly one-half over the last dozen years or so. Now, in part, that is also because of economic reforms in China. But the basic arithmetic holds in any event.

PREPARED STATEMENT

I do not think that there is any more important policy issue on the international agenda today than population policy and family planning. As Sharon Camp has indicated, what we do during this decade on this issue is going to not only shape population trends during the next century, but it is going to shape the conditions under which we will be living in the next century.

[The statement follows:]

STATEMENT LESTER R. BROWN

Assessing Ecological Decline*

Lester R. Brown and Edward C. Wolf

Ecologists have long lamented the world's casual approach toward altering ecosystems with scant understanding of the consequences. Two recent studies—one by the World Bank on Ethiopia's deteriorating agricultural ecosystem, and one by a Yale University researcher on the effects of air pollution and acid rain on northeastern U.S. forests—have assessed the effect of growing stress, physical or chemical, on ecosystems. Both trace the stages of deterioration as pressures intensify. Each reaches the same conclusion: If the stresses are great enough, the ecosystem will deteriorate and eventually collapse.[1]

For a number of scientists, this comes as no surprise. A small community of ecologists have been warning for years that the stresses caused by population growth and pollution can lead to ecosystem deterioration. Such deterioration is now adversely affecting economic trends in scores of countries, mostly in the Third World. And for some governments, coping with the economic consequences of ecological deterioration has become a full-time challenge.

Profiles of Ecological Decline

Accumulating evidence from ecology, agronomy, and hydrology indicates that sustained overuse of biological systems can set in motion changes that are self-reinforcing. Each stage of deterioration hastens the onset of the next. When destructive ecological change is coupled with rapid human population growth in subsistence economies, the stage for human tragedy is set.

World Bank energy analyst and ecologist Kenneth Newcombe has described how complex, interrelated systems unravel through several stages. His model, based on fieldwork in Ethiopia, portrays a cascading decline in biological and economic productivity triggered by loss of tree cover. According to Newcombe, as people seek new agricultural land, natural forests retreat before the plow. Without trees, mineral nutrients are no longer recycled from deep soil layers. As this nutrient cycle is breached, soil fertility begins to decline. In this first stage,

*This statement is excerpted from State of the World 1986, 1990, and 1989 (New York: W.W. Norton, 1986, 1990 & 1989), Chapters 2, 8, and 10, respectively.

wood supplies remain sufficient and the gradual erosion of cropland fertility is imperceptible.[2]

As rural and village populations grow, markets appear for wood, both for construction and for household fuels. Cutting wood from remnant forests generates income for peasant families, who generally burn crop residues and animal dung in their own households. This in turn interrupts two more nutrient cycles: Removing crop residues and diverting dung from fields degrades soil structure and leaves the land more vulnerable to erosion. On sloping fields, annual soil erosion of 50–100 tons per hectare is common. The depletion of remaining forests then accelerates, and the loss of soil fertility begins to reduce crop yields.

Once nearby stands of trees are gone, dung and crop residues turn up in local markets where formerly only wood was sold. The steady loss of nutrients and organic matter from croplands severely limits crop yields and the ability of pastures to support livestock. A greater share of family cash income comes from the sale of dung than from that of food crops, for erratic crop yields prove barely sufficient even for subsistence.

Eventually, cow dung becomes the main fuel source in villages and thus the main cash crop from nearby farms. Rural families use crop residues for cooking and as fodder for their livestock, which can no longer be supported by grazing land. Pervasive topsoil depletion leaves farmers vulnerable to total crop failure during even routine dry seasons. In markets, both food and fuel prices rise rapidly.

When this final stage is reached in a subsistence economy, biological productivity is destined to collapse. Families can no longer produce enough food for themselves or their livestock, let alone for markets. A massive exodus from rural areas begins, often triggered by drought that could formerly have been tolerated. Famine is widespread; peasants' lack of purchasing power is compounded by absolute shortages of food at any price.

This model of an accelerating cycle of degradation is now being confirmed in portions of Africa. A joint U.N. Development Program/World Bank report points out that "this transition from the first to the final stage is in process right across Ethiopia and has reached the terminal phase in parts of Tigre and Eritrea."[3] At a World Bank workshop in Botswana in March 1985, Newcombe warned "There is evidence that [the final stage] has already been reached in some areas of several countries in Southern Africa and that virtually every country has areas that have reached [the point at which wood gathering has overtaken land clearing as a cause of deforestation]."[4]

Once nearby stands of trees are gone, dung and crop residues turn up in local markets where formerly only wood was sold.

The cascading effect Newcombe describes results from disruption of the self-regulating mechanisms of natural systems on which humans depend. The distinct stages of decline, and the event that pushes the system into instability, can be identified. Newcombe believes a critical point occurs in subsistence economies when more trees are cut for fuel than to make way for farmland.

The U.N. Food and Agriculture Organization (FAO) estimates that 60–70 percent of the outright clearing of forests and woodlands in tropical Africa is for agriculture. In many countries, however, wood collection for fuel and other uses exceeds the sustainable yield of remaining accessible forests. A 1980 World Bank study of West Africa showed that fuelwood demand exceeded estimated

sustainable yields in 11 of the 13 countries surveyed. Only in Senegal and Ghana was the annual growth of remaining woodlands believed sufficient to satisfy demand.[5]

The degree of imbalance between demand and sustainable yields of wood varies widely. For example, in both semiarid Mauritania and mountainous Rwanda, firewood demand is 10 times the sustainable yield of remaining forests. In Kenya, the ratio is 5 to 1; in Ethiopia, Tanzania, and Nigeria, demand is 2.5 times the sustainable yield, and in Sudan, it is roughly double.[6]

Sudan's wood imbalance illustrates the interaction between rapidly expanding populations and their biological support systems. Estimates based on World Bank data indicate that national fuelwood consumption crossed the sustainable yield threshold somewhere around 1965. From then on, fuelwood consumption exceeded new tree growth, gradually diminishing both the forest stock and each year's growth.[7] (See Figures 2–1 and 2–2.)

During the first few years after the sustainable yield threshold was crossed, forests in Sudan changed little. After 20 years, forested area had contracted by about one fifth. In the next 20 years, however, expanding demand is likely to deplete all the remaining woodlands. During the first half of this 40-year span there is little evidence of the problems coming in the second half. But once the mid-point is passed, only extraordinary efforts in family planning and tree planting can halt the system's complete collapse.

An analysis of chemical stress on forest ecosystems in the northeastern United States by ecologist F.H. Bormann of Yale University's School of Forestry resembles Newcombe's analysis of physical stress on rural ecosystems in Africa. Specifically, Bormann addressed the effects of air pollution and acid rain.

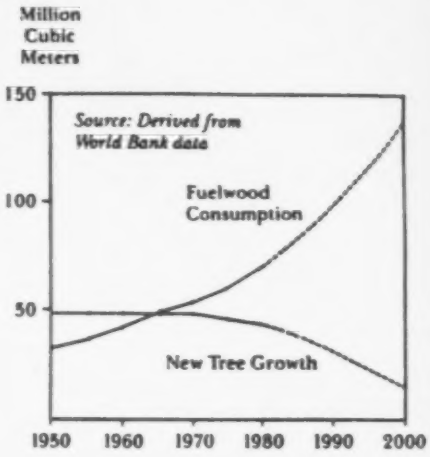


Figure 2-1. Fuelwood Consumption and New Tree Growth in Sudan, 1950-80, With Projections to 2000

Like Newcombe, he identified several stages in the deterioration of forests. At first, pollution stress is minimal, and effects on the forest ecosystem are negligible. As pollution levels increase, the more sensitive species begin to suffer, and the overall structure of the forest

Figure 2-2. Standing Stock of Trees in Sudan, 1950-80, With Projections to 2000

ecosystem begins to change. Typically, the larger species are the first to go, followed by shrubs and herbs. Over time, as pollution stress accumulates, productivity drops. And the ability of the ecosystem to repair itself diminishes.[8]

As the vegetative density is reduced, so too is the amount of nutrients held in the system. At this point, increases in rainfall runoff and the erosion of soil become noticeable. The export of soil and nutrients to adjacent streams and lakes can be severely disruptive. In the absence of human intervention to remove the source of chemical stress, the ecosystem will continue to deteriorate, and eventually collapse. As graphic illustrations of this final stage of ecosystem collapse, Bormann cites the degraded ecosystems that now exist around strong sources of air pollution, such as Copper Hill, Tennessee, and Sudbury, Ontario.

The pollution-related deterioration of forest ecosystems is difficult to analyze partly because pollutants are varied and wide-ranging. Seemingly healthy forests may act as a sink for pollutants over a long period of time before showing stress. On the other hand, chemical stress often weakens the more sensitive species, making them more vulnerable to natural events such as drought, frost, attacks by insects, or disease. An unprecedented insect outbreak, for example, could be the result of a physiological weakening of the plant species, leaving it open to exploitation by insects.

Another study that charted pressures on ecosystems dealt with grasslands in nine countries of southern Africa that are being degraded by physical stress. (See Chapter 4 for further discussion of this ecosystem.) The problem is particularly noticeable in Africa, where livestock numbers have expanded nearly as fast as the human population. In 1950, Africa had 219 million people and a livestock population of 295 million. Since then, the continent's population has increased two and a half times, reaching 513 million in 1985. Meanwhile, livestock numbers have expanded by three fourths, increasing to 518 million.[9]

Because little grain is available for feeding livestock, the continent's 176 million cattle, 190 million sheep, and 152 million goats are supported almost entirely by grazing or browsing. Everywhere outside the tsetse fly belt, livestock are vital to the economy. But in many countries, herds and flocks are destroying the grass resource that sustains them.[10]

The U.N. report, by FAO, reveals the extent of overgrazing in the nine nations of southern Africa: "For some countries and major areas of others, present herds exceed the carrying capacity by 50 to 100 percent. This has led to deterioration of the soil—thereby lowering the carrying capacity even more—and to severe soil erosion in an accelerating cycle of degradation."[11] Heavy grazing, combined with declining rainfall, gradually changes the character of rangeland vegetation and its capacity to support livestock.

As grazing and wood gathering increase in semiarid regions, rapidly reproducing annual grasses replace perennial grasses and woody perennial shrubs. The loss of trees such as the acacias in the Sahel (the band of semiarid savanna that extends across Africa south of the Sahara) means less forage in the dry season, when the protein-rich acacia pods formerly fed livestock on otherwise barren rangeland. Annual grasses that come to dominate the landscape are far more sensitive to water stress than perennials, and may not germinate at all in drought years. A range already shrinking as cultivated land expands can no longer sustain local herds, even in wet years.

As Africa's grasslands deteriorate, the composition of its livestock population is changing. From 1950 to 1970, the conti-

Table 2-1. Changes in Africa's Cattle, Sheep, and Goat Populations, 1950–70 and 1970–83

	Average Annual Change	
	1950–70	1970–83
	(percent)	
Cattle	+2.15	+0.83
Sheep	+1.67	+2.36
Goats	+1.67	+2.19

SOURCE: U.N. Food and Agriculture Organization, *Production Yearbook* (Rome: various years).

nent's cattle herd grew over 2 percent per year, somewhat faster than that of either sheep or goats. (See Table 2–1.) Since 1970, herd growth has been halved, while that of the sheep and goat populations has actually accelerated. This shift toward livestock dependent on woody foliage reflects a period of unrelenting rainfall decline that has diminished forage grasses, which in turn intensifies pressure on the woodlands that also supply household fuel.

Although environmental deterioration has now reached the point where it is visibly shaping Africa's economic future, little effort has been devoted to systematically measuring changes in the continent's support systems. One notable exception to this is a survey done for the United Nations Environment Programme by Leonard Berry of Clark University. (See Table 2–2.) Initially undertaken for 14 countries and covering the period 1977–84 (see *State of the World-1985*), the assessment has since been expanded to cover some 20 countries and updated through 1985. The inclusion of eastern and southern Africa confirms the sobering findings of the earlier study.

The countries included in the latest assessment, representing a cross section of the continent, have a combined population of 281 million people, just over half Africa's total. The survey focused on five manifestations of ecological deterioration: sand dune encroachment, the deterioration of rangelands, forest depletion, the deterioration of irrigation systems, and problems in rainfed agriculture. Not one of the 100 indicators—5 for each of the 20 countries—showed any improvement. Roughly one fifth of the readings did not change significantly during the eight years under review. Almost half of the measurements showed a moderate deterioration. And over a quarter revealed serious deterioration, indicating a marked reduction in the ecosystem's capacity to support economic activity.

The climatic, ecological, economic, and demographic trends reflected in Berry's survey are interdependent and continuously interacting. All show signs of the self-reinforcing deterioration that Kenneth Newcombe has also documented, a cycle of degradation that progressively robs the land of its resilience and reduces the economic choices open to people who depend on it.

Economic Costs

Ecological deterioration, an insidious process resulting from mismanagement of resources, eventually affects economic development adversely. Real production costs and imports rise, while land and labor productivity, output, exports, and tax revenues fall. Whether the evidence is regional water shortages in the United States, firewood shortages in India, or food shortages in Africa, the relationship between wasted and abused resources and economic stresses has become readily apparent. Even more apparent is the tendency of ecologically induced economic decline to ignore national boundaries.

Excessive pressures on land and land mismanagement have led to widespread

Table 2-2. Desertification Trends in Selected African Countries, 1977–85

Country	Sand Dune Encroachment	Deterioration in Rangelands	Forest Depletion	Deterioration of Irrigation Systems	Rain-fed Agriculture Problems
Botswana	+	+	o	o	o
Burkina Faso	o	+	+	+	++
Cameroon	o	+	+	o	+
Chad	++	++	+	++	++
Ethiopia	+	++	++	+	+
Guinea	o	o	+	+	++
Kenya	o	++	+	o	+
Lesotho	n.a.	+	++	o	++
Mali	+	++	++	+	+
Mauritania	+	++	++	+	+
Niger	+	++	+	++	+
Nigeria	o	+	++	o	+
Senegal	+	++	+	+	++
Somalia	+	+	+	++	+
Sudan	++	+	+	+	o
Swaziland	n.a.	+	++	o	++
Tanzania	n.a.	++	+	n.a.	++
Uganda	o	++	o	o	+
Zambia	n.a.	n.a.	n.a.	+	+
Zimbabwe	n.a.	++	+	+	++

Key: o = stable, + = some increase, ++ = significant increase, n.a. = not available or not applicable.
SOURCE: Adapted from Leonard Berry, "Desertification: Problems of Restoring Productivity in Dry Areas of Africa," presented to the 1985 Annual Meeting Symposium, African Development Bank, Brazzaville, Congo, May 8, 1985.

cropland degradation on every continent. Worldwide, agricultural output has more than doubled over the past generation, though trends in cropland productivity have varied widely. At the upper end of the spectrum, some countries have tripled land productivity. Others have actually experienced a decline. In addition to the degradation of land already under cultivation, average crop yields have also been reduced by the extension of agriculture onto shallow soils, steeply sloping land, or the arid fringe of cropping regions.[12]

Since mid-century, the combination of advancing technology and rising investment in agriculture has enabled most countries to override the negative effects of land degradation. But some 14 nations have failed to do so. (See Table 2–3.) Ranging in size from tiny Guyana in Latin America to Nigeria, the most populous country in Africa, they have experienced an average decline in grain yields of roughly one fifth.

Of these 14 countries, the most pronounced decline occurred in Sudan, where the average yield in 1982–84 was 44 percent below that of 1950–52. This is somewhat ironic, because as recently as the late seventies this country was slated to become the breadbasket for the Middle East, an area in which its food-deficit, capital-surplus neighbors could invest. Instead, land degradation and declining rainfall in the region have con-

Table 2-3. Countries with Declining Grain Yields Per Hectare, 1950–52 to 1982–84

Country	1950–52	1982–84	Decrease
	(kilograms)		(percent)
Sudan	780	436	−44
Tanzania	1,271	900	−29
Niger	458	379	−17
Mozambique	610	521	−15
Zambia	952	819	−14
Ghana	764	686	−10
Lebanon	869	786	−10
Rwanda	1,122	1,010	−10
Nigeria	760	694	− 9
Guyana	2,231	2,099	− 6
Iraq	703	657	− 6
Kampuchea	1,002	939	− 6
Algeria	648	613	− 5
Zaire	902	878	− 3

SOURCE: U.S. Department of Agriculture, Economic Research Service, *World Indices of Agricultural and Food Production, 1950–84* (unpublished printout) (Washington, D.C.: 1985).

verted Sudan, one of the world's poorest countries, into a nation of refugee camps and feeding stations.

Nigeria, the most populous country to experience a decline in land productivity, is one of three oil-exporting countries with falling yields. Clearly, the mere availability of capital does not necessarily prevent land degradation. And political conflicts, such as the war between Iraq and Iran, can divert both capital and human resources from agriculture on a scale that affects land productivity.

Iraq's yields have declined 6 percent since the early fifties. Waterlogging and salting of its soils bode ill for future land productivity, yet agriculture is not getting the attention it deserves. Yields in Iran have increased by only 5 percent, compared with the global average of 97 percent. The war is hindering agricultural development and contributing to environmental degradation in both nations.[19]

The countries listed in Table 2–3 are not necessarily those with the most serious land degradation; they are only the ones where the advances in agricultural technology have not been sufficient to override the negative effects of such deterioration or of the addition of marginal land to the cropland base. In many countries, cropland degradation is being offset by the heavy use of chemical fertilizer. Over time, as energy becomes more costly, this substitution of artificial for natural fertility will become more difficult.

Just as cropland degradation reduces food supplies in Third World countries, degradation of woodlands reduces fuel supplies. After a point, the loss of tree cover translates into firewood scarcity and rising prices, a trend that can clearly be seen in Addis Ababa. During the 13 years from 1970 through 1983, firewood prices in Addis Ababa more than tripled, but even this was modest compared with some other parts of Africa and even with other locations in Ethiopia. In the eco-

Table 2-4. India: Prices of Firewood in Selected Cities, 1960, 1975, and 1983 (current prices)

City	1960	1975	1983	Ratio of 1983 to 1960
	(rupees per 100 kilograms)			
Bangalore	4.7	21.0	50.0	10.64
Indore	5.7	24.3	60.0	10.53
Bombay	8.5	36.1	85.7	10.08
Kanpur	6.1	21.0	52.3	8.57
Delhi	10.1	—	85.0	8.42
Hyderabad	6.6	23.2	55.0	8.33
Madras	8.2	25.4	59.1	7.21
Calcutta	9.3	—	61.3	6.59
Ahmedabad	9.0	28.3	55.5	6.17

SOURCE: Based on data in Centre for Science and Environment, *The State of India's Environment, 1984–85* (New Delhi: 1985).

logically devastated provinces of Eritrea and Tigre, fuelwood prices in the early eighties were roughly double those in Addis.[14]

India, too, is facing a fuelwood shortage. As firewood becomes more scarce, India's urban centers import wood from ever greater distances. Delhi, for example, now ships firewood from the states of Orissa, Bihar, Maharashtra, and Assam, the latter some 1,000 kilometers away. Even with these imports from distant states, the number of firewood rail wagons unloaded in Delhi plummeted from 12,424 in 1981–82 to 7,577 just two years later. This decline in deliveries helps explain why firewood prices in Delhi were eight times higher in 1983 than in 1960. (See Table 2–4.) Bombay and Bangalore experienced even greater price hikes during the same period.[15]

A survey undertaken in the late seventies in Madhya Pradesh, an Indian state with a population of 52 million, located in the geographic center of the Indian subcontinent, showed that 26 of its 45 districts faced a fuelwood deficit. Following this survey, the state—India's leading exporter of firewood—banned such exports in August 1981. In contrast with OPEC export embargoes, this ban did not aim to raise firewood prices elsewhere, but to bring down the price paid by the state's residents.[16]

In some Third World countries, urban dwellers spend one fourth of their income on cooking fuel. Government officials in New Delhi already question where India's projected year 2000 population of 994 million will find the fuel to cook their food. The shift from firewood to cow dung and crop residues that invariably accompanies a loss of tree cover is well under way in India, as data for Madhya Pradesh indicate.[17] (See Table 2–5.)

Although widespread air pollution and acid rain are recent compared with

Table 2-5. Household Fuel Consumption in the Indian State of Madhya Pradesh

Fuel	Quantity
	(million tons)
Cow Dung	9.64
Firewood	9.47
Crop Residues	6.93

SOURCE: Centre for Science and Environment, *The State of India's Environment, 1984–85* (New Delhi: 1985).

soil erosion, some of their costs are beginning to surface. A study by the Czechoslovakian Academy of Sciences estimated annual damage from acid rain to be at least $1.5 billion, with the loss of forests accounting for most of the total. With this Academy report, Czechoslovakia became one of the first countries to recognize the effect of air pollution and acid rain on farm productivity, thus linking fossil fuel combustion and agricultural output.[18]

The Czechoslovakian Academy of Sciences estimated annual damage from acid rain to be at least $1.5 billion.

According to the Academy, increasing soil acidity and air pollution are adversely affecting crops, preventing the full gains in yields expected from the tripling in fertilizer use since 1960. Referring to soil poisoning from acid rain, the report noted that increased acidity was altering soils by chemically tying up nutrients essential to plants and releasing aluminum and other toxic metals. The Academy estimated that arresting this process in severely affected woodlands would require spreading lime at the rate of 5 to 10 tons per hectare.[19]

West Germany is deeply concerned with both the aesthetic and economic costs of losing its forests to air pollution and acid rain. As early as 1983, the Bavarian Agricultural Ministry estimated the loss of trees in southern Germany at $1.2 billion. Ironically, in the short run, damage to German forests is expected to increase harvesting and reduce timber prices. Over the longer term, however, timber prices will rise as the forested area dwindles and trees become scarce.[20]

The loss of tree cover and land degradation, whether from excessive firewood cutting or from air pollution (chemical stresses), also affect the hydrological cycle. As land is degraded, its ability to absorb and retain water diminishes, and the share of rainfall that runs off, returning directly to the ocean, increases. One consequence is a reduction in aquifer recharge and falling water tables.

A project undertaken at Hatcliffe Research Station in Zimbabwe shows how land use changes affect rainfall runoff when a natural grassland is cleared for cultivation. Agronomist Henry Elwell measured the runoff from test plots on gently sloping savanna land under different cover, ranging from undisturbed natural vegetation to bare soil. (See Table 2–6.) He found that as the ungrazed savanna was replaced by bare land, the share of rainfall running off increased from 1 percent to 35. The 4.5 percent slope of the test plots at Hatcliffe is gentle compared with land under the plow in many Third World countries.

Another consequence of increased runoff is a greater frequency and severity of floods. The Swedish Red Cross reports that the number of floods worldwide classified as severe jumped from 15 in the sixties to 22 in the seventies, an increase of one half. The annual death toll from these disasters climbed sixfold,

Table 2-6. Rainfall Runoff Under Varying Land Uses at Hatcliffe Research Station, Zimbabwe (4.5 percent slope)

Vegetative Cover	Share of Annual Rainfall Running Off
	(percent)
Natural Vegetation[1]	1
Clipped Grass	8
Soybeans	20
Bare Soil	35

[1]Mostly tall grass, ungrazed.

SOURCE: Personal communication with H.A. Elwell, Institute of Agricultural Engineering, Ministry of Agriculture, Harare, Zimbabwe, May 2, 1985.

a reflection of the greater severity of the flooding and a growth in size of vulnerable populations.[21]

Some countries have recently lost valuable stocks of tropical timber to fire, until recently a rare phenomenon in a tropical rain forest. Such areas are normally resistant to fire, but they have been dried out from tightening slash-and-burn cycles, from tree cutting for timber, or from firewood gathering, and they have consequently become vulnerable in drought years. In the spring of 1983, a forest fire in Kalimantan burned for three months, eventually consuming 2 million hectares of tropical rain forest.[22]

The Ivory Coast also experienced a massive forest fire in that year. Like the one in Kalimantan, the triggering event was a sharp reduction in rainfall. Before it was over, the fire in the Ivory Coast had destroyed some 450,000 hectares of forest, much of it high-value tropical hardwoods. In neighboring Ghana, forest fires during the same period consumed an estimated 10 percent of the country's cocoa plantations, reducing the earnings from the country's principal export crop.[23]

Declines in rainfall affect not only rain-fed agriculture but also irrigated agriculture and hydroelectric generation. For example, the World Bank observed that in 1984 Ghana's generation of electricity from hydropower, its principal source of this power, was three fourths lower than the level of just two years earlier. This led to a shutdown of Ghana's aluminum smelter, which reduced export earnings by some $18 million in 1983. When added to the loss of cocoa exports, estimated at some $76 million, and the need for increased food imports as a result of the decline in rainfall, the adverse balance-of-payments effect easily exceeds $100 million.[24]

The energy sector of the Ivory Coast was also deeply affected by the decline in rainfall. In December 1983, this nation that normally obtains some two thirds of its electricity from hydropower generation had to switch entirely to thermal power plants, costing the electricity company an estimated $100 million. These examples illustrate how a decline in rainfall can markedly reduce output of both the agricultural and energy sectors.[25]

The livestock sector, too, has been greatly affected by the deterioration of grasslands and the disruptions associated with rainfall declines. The World Bank reports, for example, that Botswana lost 600,000 head of cattle in 1983 and 1984, sharply reducing its long-term capacity to export livestock products. Lesotho lost 58,000 head of cattle and 243,000 sheep. During the same period, Zimbabwe lost an estimated 50,000 head of cattle. At least a dozen other African countries have experienced similar herd reductions during the eighties, and for the same reasons. In many situations herds will be rebuilt, but in some, where rangeland degradation is severe and topsoil has been lost, the liquidation may be final.[26]

In Africa, where 40 percent of the people live in countries with falling land productivity, ecological deterioration is slowing economic growth and in some cases causing economic decline. On a continent where agriculture is the primary livelihood, this decline has contributed to the roughly one-fifth reduction in per capita income since 1970. As long as Africa's population continues to expand rapidly, ecological degradation is likely to continue, and its economic consequences will no doubt worsen.[27]

The Social Consequences

Of all the social consequences of ecological deterioration, falling per capita food production and the increase in malnutrition and mortality that often follows are

undoubtedly the most serious. Some countries have offset declines in per capita food production with commercial imports or food aid, but in many others, belt-tightening is the only possible response. For those living in countries where average consumption is already close to the subsistence level, further reductions lead to increased malnutrition, rising death rates, and, in severe cases, famine of the sort that has plagued many African countries in the mid-eighties.

Failed or nonexistent population policies can both expand demand for food and undermine agricultural support systems.

The unprecedented technological advance and economic progress of the past generation notwithstanding, more than 40 developing countries are producing less grain per person in the mid-eighties than they did in the early fifties. (See Table 2–7.) The declines range widely, from 85 percent in Lebanon to 2 percent or less in Bangladesh and Costa Rica. Not by coincidence, the great majority of the countries are in Africa, the Middle East, Central America, and the Andean region—areas where ecological deterioration is proceeding most rapidly. Together, these nations are home to over 700 million people, some 15 percent of the world total.[28]

In a few industrial countries, such as Japan and Taiwan (not included in Table 2–7), declines follow a planned shift of labor to the nonfarm sector. Japanese agricultural policy has been designed to maintain essential self-sufficiency in rice, the national food staple, while greatly increasing imports of the feedgrains consumed by its burgeoning livestock and poultry industries. Taiwan is following similar policies.

The decline in per capita grain production in most countries is not exclusively due to ecological deterioration. Inattention to population policy and the overall neglect of agriculture have also contributed. Failed or nonexistent population policies can both expand demand for food and undermine agricultural support systems. In essence, population growth hastens the process of ecological decline.

Virtually all the countries with falling land productivity (see Table 2–3) also experienced a decline in per capita grain production. The only exceptions were Zambia, Tanzania, and Guyana, where the cultivated area grew faster than the population and more than offset the decline in land productivity.

Although the spotlight in recent years has focused on the agricultural decline in Africa, the Middle East has experienced an even greater fall in per capita grain production. Iraq, Jordan, and Lebanon have experienced declines since mid-century that range from 61 to 85 percent. In almost every Middle Eastern country, the growth in agricultural output is falling further behind population growth with each passing year.

This situation has attracted less attention than Africa's because the falling grain output per person has been offset by growth in oil-financed grain imports. As long as oil exports are available to finance rising food deficits in the Middle East, agricultural deterioration can be ignored. But some day these countries will find themselves with far larger populations, with little oil remaining to finance food imports, and with a thoroughly degraded agricultural resource base.

The two principal exceptions to the agricultural deterioration in the Middle East are Israel and Saudi Arabia. Israel has worked hard to restore its agricul-

Table 2-7. Developing Countries with Declining Grain Production Per Person, 1950–52 to 1982–84

Country	1950–52	1982–84	Decrease
	(kilograms/year)		(percent)
North Africa			
Algeria	219	79	−64
Libya	106	69	−35
Morocco	258	177	−31
Tunisia	196	154	−21
Sub-Saharan Africa			
Mozambique	97	36	−63
Mali	242	134	−45
Angola	81	45	−44
Kenya	226	139	−38
Nigeria	171	111	−35
Ghana	66	44	−33
Uganda	155	107	−31
Guinea	131	95	−27
Rwanda	58	43	−26
Zaire	39	32	−18
Benin	124	103	−17
Senegal	139	118	−15
Cameroon	112	97	−13
Togo	121	108	−11
Liberia	153	139	− 9
Niger	286	260	− 9
Sudan	114	104	− 9
Sierra Leone	155	143	− 8
Ethiopia	202	189	− 6
Burkina Faso	181	177	− 2
Middle East			
Lebanon	54	8	−85
Jordan	138	44	−68
Iraq	269	105	−61
Syria	315	215	−32
Iran	193	176	− 9
Turkey	472	446	− 5
Latin America			
Haiti	135	75	−44
Honduras	194	133	−31
Nicaragua	188	136	−28
Panama	174	136	−22
Chile	192	153	−20
Peru	105	85	−19
El Salvador	142	129	− 9
Cuba	55	52	− 5
Costa Rica	142	141	− 1
Asia			
Kampuchea	401	267	−33
Afghanistan	417	324	−22
Nepal	296	243	−18
Bangladesh	240	235	− 2

SOURCE: U.S. Department of Agriculture, Economic Research Service, *World Indices of Agricultural and Food Production, 1950–84* (unpublished printout) (Washington, D.C.: 1985).

tural productivity to the levels that once existed in the region, literally converting desert into gardens. Its achievements demonstrate the potential for reversing the worsening situation in the Middle East and elsewhere if the political commitment exists.

Saudi Arabia has also achieved impressive agricultural advances in recent years, but with exorbitant investments of oil money. For example, it has greatly expanded wheat production through the use of costly water drawn from aquifers far beneath the earth's surface. Unfortunately, this may not be financially sustainable over the long term, since it is based on a wheat support price of $28 a bushel—seven times the 1985 world price of $4 per bushel.[19]

The Middle East is unique in that it is experiencing simultaneously some of the most severe ecological degradation and worst political turbulence of any region. The longstanding conflicts between Israel and its Arab neighbors, the internal disintegration of Lebanon, and the war between Iran and Iraq that has stretched on for some five years are exacting a heavy long-term cost.

In North Africa, per capita grain production is falling in the entire northern tier of countries except Egypt. Ironically, these countries occupy the lands that were once the granary of the Roman Empire. Algeria and Libya now import over half the grain they consume. In sub-Saharan Africa, the great majority of people live in countries where per capita food production is falling. In seven countries, with about a third of the continent's population, per capita grain production has declined between one third and one half since mid-century.

The comparison of yield data for the early fifties and mid-eighties in Table 2–7 does not fully convey the gravity of the situation in Africa, since in many countries—indeed, for Africa as a whole—grain production per person actually rose from mid-century through the late sixties. Thus the declines since the late sixties have been even more precipitous than those shown for the longer time period covered in the table.

There are nine countries in Latin America and the Caribbean with falling per capita grain production. They tend to be the smaller nations, concentrated in Central America and the southern Andes. Of the three countries astride the southern Andes, grain production per capita in two, Chile and Peru, has declined by one fifth since mid-century. Only Bolivia was able to eke out any gain at all.

As a continent, Asia has fared well on the food front, largely because of production gains in China and India. Of the four countries where per capita grain production has fallen, Kampuchea and Afghanistan have been torn by war for the last several years. The other two—Nepal and Bangladesh—are suffering from severe ecological degradation. Indeed, the deforestation of Nepal is not only increasing soil erosion and undermining agriculture there, it is contributing to the severity of floods that destroy crops and trigger famine downstream. In Bangladesh, which ranks with Ethiopia, Chad, and Mali as one of the world's poorest countries, famine is never more than one flood away.

Assessing the effect on nutrition of land degradation and falling per capita food production is hindered by the paucity of research on this linkage. One of the few studies that links population pressure with soil erosion and nutrition is a World Bank report by William Jones and Roberto Egli. They note that in the Great Lakes Highlands of Rwanda, Burundi, and Zaire: "As population densities have increased, particularly where land is most scarce, farmers have turned to tubers as a starch source. Statistics show a consistent and continuous displacement of grains and legumes by tub-

ers, which yield more starch per hectare."[30] As farm sizes grow smaller and land productivity declines, farmers plant cassava, yams, or potatoes in place of corn to maximize the number of calories, rather than the amount of protein, that their fields produce. In effect, they switch from an agricultural system based on marketable crops to one aimed at meeting bare subsistence needs.

Political Fallout

In addition to the economic and social effects of ecological deterioration, governments must contend with the political fallout as well. Among the more worrisome of these consequences are food riots and the forced migration of people in search of sustenance, both of which are becoming distressingly frequent. Both are politically destabilizing, exerting a heavy claim on the time of political leaders.

Perhaps the most visible political stress are the riots and demonstrations that break out in response to food shortages and price increases. (See Table 2–8.) In extreme cases, the overthrow of a government can be the result, a sequence that was dramatically illustrated in Sudan in the spring of 1985.

With its land productivity declining for close to two decades, and its food deficit and external debt rising as a result, Sudan's foreign debt reached $9 billion in 1985. One of the austerity

Table 2-8. Food-Related Riots and Demonstrations, 1981–85

Country	Date	Triggering Event
Bolivia	July 1983	Drought-induced food shortages
Brazil	Summer 1983	Food shortages in northeast
Dominican Republic	Spring 1984 January 1985	Food price increases Sharply increased prices for basic foodstuffs
Egypt	May 1984	Increased bread prices
Haiti	May, June 1984	Food shortages
Jamaica	January 1985	Food price increases
Morocco	January 1984	Cuts in government food subsidies
Philippines	January 1984	50 percent increase in food prices
Sierra Leone	Spring 1981	Scarcity of rice and increased retail food prices
Sudan	March 1985	Food price increases
Tunisia	December 1983	Sharply increased prices for wheat and wheat products

SOURCES: U.S. Department of Agriculture, *Outlook and Situation Reports*, Washington, D.C.; various news articles.

measures imposed on it by the international financial community in exchange for new loans was the abandonment of the food subsidies that favor city dwellers. The resulting food price increases in the spring of 1985 led to riots and demonstrations in Khartoum. While President Nimeiry was in Washington seeking additional financial assistance, this civil unrest paved the way for a military takeover of the government.[31]

If the massive flow of refugees across the border with Senegal continues, in a matter of years more Mauritanians will live in Senegal than in Mauritania.

Nearly all the countries in Table 2–8 are essentially agrarian economies. And nearly all have experienced extensive ecological deterioration—deforestation, soil erosion, land degradation, rangeland deterioration, and increases in rainfall runoff. In half the countries, grain production per person is lower today than it was at mid-century.

Food subsidies are a common governmental response to growing food deficits and rising food prices. They often merely postpone the day of reckoning, however, because eventually the size of the subsidy becomes unmanageable. The government of Tunisia, faced with a growing trade and budget deficit, announced in December of 1983 that it would reduce the government supports on wheat and wheat products. The resulting 85 percent price increase precipitated a week of rioting, which ended only when President Bourguiba restored the subsidies.[32]

Brazil has been plagued with more food riots than any other country. In the summer of 1983, hungry people descended on stores and supermarkets in the towns of the ecologically devastated northeast. The food shortages were a result of prolonged drought, land degradation, and the associated lack of water-absorptive capacity that contributed to the severity of the crop shortfalls.[33]

Ecological degradation is also causing a swelling tide of refugees fleeing famine, disaster, and poverty. For centuries, political refugees have migrated to other countries, and in recent decades, people in search of jobs have crossed international borders in large numbers. Now, ecological deterioration in Africa is generating millions of migrants, who are leaving their villages in record numbers in search of food and water. African farmers and herders are converging on cities and emergency relief camps.

In February 1985, the United Nations estimated that more than 10 million Africans had left their homes in search of food, frequently crossing national borders in their desperate quest. Hundreds of thousands of Ethiopians have crossed into Sudan, heading for relief camps. (See Table 2–9.) Mozambicans have moved into Zimbabwe in droves to escape the guerilla warfare, ecological deterioration, and social disintegration of their homeland.[34]

Mauritanian nomads have moved into Senegal and The Gambia, attempting to escape the Sahara as it pushes southward. In the Mauritanian capital of Nouakchott, residents must spend the early hours of each day shoveling the sand away from doors and off streets and sidewalks so that they remain passable. If the massive flow of refugees across the border with Senegal continues, in a matter of years more Mauritanians will live in Senegal than in Mauritania.[35]

Sudan, now host to 1.1 million refugees from neighboring countries, has become one huge relief camp. As of mid-1985, the country had absorbed 775,000 Ethiopians, 250,000 Ugandans, and

Table 2-9. Distribution of Refugees in Africa by Country of Refuge, 1984

Country of Refuge	Number of Refugees	Primary Countries of Origin
Sudan	1,100,000	Ethiopia/Uganda/Chad
Somalia	700,000	Ethiopia
Zaire	504,000	Angola/Uganda
Tanzania	180,000	Burundi/Zaire
Algeria	167,000	Western Sahara
Uganda	132,000	Rwanda/Zaire
Zambia	104,000	Angola/Zaire
Angola	96,000	Namibia/Zaire
Rwanda	49,000	Burundi/Uganda
Zimbabwe	44,000	Mozambique
Ethiopia	40,000	Sudan
Djibouti	23,000	Ethiopia
Kenya	8,000	Uganda/Ethiopia
Central African Rep.	7,000	Chad
Egypt	5,000	Ethiopia

SOURCES: U.S. Committee for Refugees, *World Refugee Survey 1984* (New York: American Council for Nationalities Service, 1984); U.N. Office of Emergency Operations in Africa, *African Emergency Bulletin*, July 15, 1985.

120,000 Chadians. In addition to wrestling with its own massive food shortfalls, the Sudanese government must confront such logistical questions as how to truck enough water to refugee camps where wells have gone dry. Declining rainfall and the closely associated deterioration of local life-support systems were the principal forces driving people into Sudan, although civil strife in the originating countries also played a role.[36]

In Chad, a combination of drought and civil war have displaced an estimated 2.2 million of a total population of 4.8 million, the great majority of them still within the country. This extensive dislocation of a national population—46 percent—may be a record. Such massive displacement means that economic development has been replaced by economic decline, as food output falls.[37]

Whether people are migrating to another part of their own country or across national borders, the process is politically stressful and economically disruptive. People are losing their livestock and being separated from the land, their means of livelihood. Cultivators and nomads are descending on cities and relief camps, unable to sustain themselves. Even when drought eases, agricultural recovery is slow. People are far removed from their land, have lost their draft animals, and have eaten the seed normally saved for replanting.

As these experiences in many countries indicate, the relationship between ecological deterioration and political stresses is real. Walter Truett Anderson, a political scientist specializing in biological issues, has focused on this particular relationship in Central America: "At this point, with tree cutting proceeding far more rapidly than tree planting, Central America is moving rapidly toward an ecological deterioration that will make it difficult to establish any stable social

order."[38] His point applies to all of the Third World countries that are undergoing rapid ecological deterioration.

The Need for Integrated Analysis

With only occasional exceptions, policy analysts and decision makers have failed to adopt an integrated and multidisciplinary approach for analyzing the relationship between ourselves and our environmental support systems. Although specialization is essential to the systematic advancement of knowledge, there is also a need for generalists who can integrate across fields of knowledge, particularly across the social and natural sciences.

This specialization of knowledge and mission without a counterbalancing, integrating mechanism is proving to be socially costly. In key policy areas, such as population, agriculture, and economics, policies and priorities often rest on such a narrow information base that they prove counterproductive. This is perhaps truest of national security, where the policymaking process is even more isolated from other fields.

Perhaps the greatest single need for intellectual integration is between economics and ecology. Throughout much of the period of rapid global economic expansion since World War II, economists have been able to ignore ecological concepts such as carrying capacity, largely because the human demands on biological systems were well below their sustainable yields. With the quadrupling of world economic activity since midcentury, however, human demands are beginning to exceed sustainable yield thresholds in country after country. Unfortunately, most Third World planning commissions are staffed largely, if not entirely, by economists—at a time when long-term economic planning is impossible without a command of basic ecology.

This weakness is evident in most global economic policymaking models. These are essentially macroeconomic, assuming unlimited ecological capacities, and they thus produce unrealistic economic forecasts. For example, agricultural supply and demand projections invariably include projections of cropland area, but ignore entirely the effect of soil loss on land productivity. Nor do these models incorporate key relationships between the hydrological cycle and the loss of vegetation so widespread in the Third World.

One of the central issues in development planning is how to respond to the effect of population growth and associated changes in land use on the hydrological cycle. Given the obvious importance of this issue, an extensive collaborative exploration of these relationships by demographers, hydrologists, and meteorologists should be a priority. So far, few meteorologists are looking at how land use changes affect climate, and they are not translating their findings into policy recommendations.

For Africa, the question central to any assessment of the continent's future is whether changes in land use and the loss of vegetation and soil associated with population growth are reducing rainfall. Are the 18 consecutive years of below-normal rainfall in Africa since 1967 just another of many historical climatic oscillations? Or do they presage a long-term gradual decline that will likely continue as long as populations expand and land use changes? According to French meteorologist Robert Kandel, "Plant cover in general and forests in particular may have virtues going beyond the microclimate and extending to the regional

scale circulation."[39] In a review of desertification in West Africa, World Bank forester Jean Gorse writes: "The current 17-year dry period is most worrying. With population growing faster than ever before, the proposition that there is now a trend towards increasing aridity deserves a special research effort."[40]

Unless at least an informed assumption can be made about the relationship between ecosystem change and the hydrological cycle, devising an intelligent development strategy for Africa is impossible. For example, in reforestation planning, there may be a vast difference between the scale of tree planting needed merely to satisfy future firewood demands and that which would be required to restore the hydrological cycle of a generation ago. The latter could easily require 10 times as many plantings as the former. Likewise with agricultural research: Without some understanding of whether Africa's rainfall decline is temporary, it is impossible to know whether to concentrate research efforts on a widely grown crop, such as maize, or on traditional staples that are better adapted to low rainfall conditions, such as sorghum.

Population projections also suffer from a narrow base of information that is almost exclusively demographic. Population projections by U.N. or World Bank demographers are essentially abstractions. There are no feedback loops in their models to incorporate the effect of population growth on the local resource base. The effects of deforestation, soil erosion, cropland abandonment, and freshwater scarcities are entirely omitted from these projections. Unfortunately, many policymakers, including Third World political leaders, assume that these are "real world" projections that may materialize.

Most Third World planning commissions are staffed by economists —at a time when long-term economic planning is impossible without a command of basic ecology.

Closely related to this analytical challenge is that of assessing the effect of reinforcing trends. At what point does ecological deterioration begin to contribute to political disintegration? And at what point does political disintegration undermine efforts to manage ecological systems intelligently? Lebanon's per capita food production, for example, declined 87 percent since 1950. Most of the reduction has come in recent years, a time marked by social fragmentation and a breakdown of political structures. Clearly, political disintegration is affecting the agricultural prospect. But to what extent did ecological deterioration and agricultural decline contribute to the social stresses that led to political disintegration?

Separating the effects of ecological deterioration from economic neglect and political instability or social unrest is analytically difficult. But without an integrated information and analytical base, formulating policies responsive to the circumstances of an earth with 5 billion human inhabitants may not be possible.

Poverty and the Environment

Most of the world's looming environmental threats, from groundwater contamination to climate change, are by-products of affluence. But poverty drives ecological deterioration when desperate people overexploit their resource base.

sacrificing the future to salvage the present. The cruel logic of short-term needs forces landless families to raze plots in the rain forest, plow steep slopes, and shorten fallow periods. Ecological decline, in turn, perpetuates poverty, as degraded ecosystems offer diminishing yields to their poor inhabitants. A self-feeding downward spiral of economic deprivation and ecological degradation takes hold.

In the rural Third World, human reliance on ecosystems goes unmediated by the long chains of commerce, industry, and civil infrastructure that shape life in rich countries. For the have-nots, food comes from the soil, water from the stream, fuel from the woods, fodder from the pasture, and fruit from the trees around the hut. Poor people know well that to endanger any of these things is to imperil themselves and the lives of their children. Farmers with secure rights to a piece of land tend to care for it meticulously, taking a long-term view and forgoing current benefits for dependable future gains.

The central pole around which the downward spiral turns is the lack of resources—the first element of the local poverty trap. Poor but secure smallholders rarely overburden their land; dispossessed and insecure rural households often have no choice but to do so. Access to a resource without control over it can be equally harmful. Nothing incites people to deplete forests, soils, or water supplies faster than fear they will soon lose access to them. Neither hired workers, nor hired managers, nor tenant farmers care for land as well as owners do. In Thailand's forests, squatters given long-term rights to use their plot care for the land better than squatters with no legal standing, but not as well as those who own their plots outright.[36]

As the global poverty trap tightens and the world's poor become increasingly insecure and dispossessed, the conditions for ecological degradation spread to more of the earth's fragile lands. Two of the most common sequences by which poor people fall, or are pushed, into the downward spiral are illustrated by the situations in Nepal and Costa Rica.

Nothing incites people to deplete forests, soils, or water supplies faster than fear they will soon lose access to them.

Nepal exemplifies the way sheer growth of human numbers fuels the spiral, as human practices at a given level of technology exceed a local environment's carrying capacity. As population swells, peasants in highland valleys are forced to expand their plots onto steep forested hillsides, extending women's journeys to gather fuel and fodder. Over the past decade, during which forests have receded to half their original extent, women's daily journey has increased by more than an hour, their workday in the fields has shortened, family incomes have fallen, and diets have deteriorated.[37]

Shubh Kumar and David Hotchkiss of the International Food Policy Research Institute (IFPRI) in Washington report not only that food consumption in the region has fallen by 100 calories per person on average, but that in village after village childhood malnutrition rates and deforestation rates are closely coupled. In the hills of Nepal, in other words, the health of a village's children can be read in the retreating tree line on surrounding slopes.[38]

Where population density is less acute than in Nepal, skewed landownership patterns have the same effect—large holdings are underattended, small holdings overburdened, and millions left

landless. In Costa Rica, a country often praised for its enlightened environmental policies, the poor have been driven into this desperate state largely by a cattle boom that has swept the nation since the early sixties. Costa Rica was once almost completely cloaked in tropical forest, holding within its small confines perhaps 5 percent of all plant, animal, and insect species on earth. By 1983, after two decades of explosive growth in the cattle industry, pastures covered roughly half the nation's arable land, only 17 percent of the original forest remained, and soil erosion was rampant.[39]

Aside from its ecological toll, the cattle boom has been an economic debacle. It was driven not so much by market forces as by heavy flows of international capital to, and special treatment for, the 2,000 politically powerful ranching families who control the industry. The Costa Rican poor, for their part, have only gotten hunger out of the deal. Smallholders have been pushed from their land to make way for four-legged competitors. Rural employment opportunities dried up because ranching is the least labor-intensive agricultural activity in the country. The rising tide of landlessness has spilled over into the expanding cities, onto the fragile slopes, and into the forests, where families left with little choice accelerate the treadmill of deforestation.[40]

The poverty trap patterns seen in Nepal and Costa Rica reappear on every continent, and the net effect is universal: the poor are increasingly concentrated in fragile regions where land is least productive and tenure least secure—arid and semiarid lands, mountain slopes, tropical forests, and sprawling shantytowns around overcrowded cities. The geographic concentration of poverty in inhospitable lands is driven partially as people move in, but more so by the heightened population growth rates that poverty itself brings. Inevitably, the poor are pulled into the downward spiral in growing numbers. Jeffrey Leonard of the World Wildlife Fund–Conservation Foundation in Washington has attempted to roughly quantify this trend using data from the World Bank, the United Nations, and IFPRI.[41]

Leonard's estimates focus on the poorest fifth of people in developing countries, a subset including about 780 million of the absolute poor. He calculates that 370 million of these—47 percent of the total—live on marginal or fragile lands, where at today's population densities the downward spiral is almost inevitable. If this ratio holds true not just for the poorest fifth of people in the Third World, but for the entire class of people in absolute poverty, then 580 million people are now trapped in the downward spiral. Many others suffer from environmental degradation, but the impact on their living standards is more limited so far.[42]

The same forces that have pushed 580 million people into the downward spiral—lack of secure control over resources, population growth, inequity, and misguided policies—are largely responsible for the deterioration of marginal, nonagricultural land. Throughout history, poor people have drawn on a resource base far larger than their own land. They gather fruits, nuts, fish, game, roots, leaves, fibers, reeds, dung, and wood from so-called common property resources—hillside forests and lowland swamps; rivers, riverbanks, and floodplains; lakes and lakeshores; open rangeland and dense thickets. These areas are a critical safety net for the poor, providing a fallback means of survival. In dryland regions of India, the landless gather one fifth of their annual income, along with numerous nonmarketed goods, by harvesting the natural products of common areas.[43]

Over generations, most agricultural and fishing villages and pastoral bands

evolved intricate codes of conduct to avoid depleting the commons upon which they depended. Yet in vast areas of the Third World, common lands—and the management systems that poor people used on them—have been overrun: privatized by the fortunate, overburdened by the unfortunate, or appropriated by the state.

In a study of Indian dryland commons, N.S. Jodha of the International Crops Research Institute for the Semi-Arid Tropics in Patancheru, India, found that over the past three decades more than half the common property distributed through the government agrarian reform program has ended up in the hands of those who already own significant quantities of land. And in Botswana, communal pasture in the savannah has been fenced by large ranchers, with support from the World Bank. Many so-called land reforms in Latin America have simply exported the rural underclass to a fragile rain forest frontier, where new settlers lay waste to ecosystems previously harvested for generations by tribal people. Almost without exception, the net effect of state land policies has been to curtail drastically common property resources open to the poor without expanding their private property resources commensurately.[44]

The deterioration of common areas is sometimes most directly caused by the breakdown of traditional management regimes that takes place as governments nationalize the resource base or intervene obtrusively in its use. Since the beginning of this century, newly independent nations freeing themselves from colonial bonds have followed their colonizers' path, codifying the earlier policy that common resources are the domain of the sovereign. Contradictory legal rights and overlapping jurisdictions, often combined with weak or corrupt ministries and courts, have undercut the authority and legitimacy of traditional management regimes—and thereby poor people's control over their resource base—without providing a viable substitute. Predictably, these failed government policies have left the rich richer, the poor poorer, and the environment denuded.

In the northern Sahel region of Mali, for example, villages traditionally enforced local restrictions on tree cutting for sheep and goat fodder by confiscating and slaughtering the best breeding male of the offender's flock. This punishment, swift and harsh, kept forests intact over centuries. When government foresters began to implement the previously declared nationalization of woodlands in the late sixties, however, villagers who enforced the traditional rules became liable for breaking the law. Forests have since been severely depleted.[45]

Even where poverty is not a cause of environmental decline, it is a ticket to suffer environmental abuses caused by others. The poor of the mammoth cities of the Third World face all the environmental perils of underdevelopment along with those of overdevelopment. Their cookstoves fill their hovels with old-fashioned smoke, multiplying the danger of respiratory diseases such as tuberculosis that run rampant through crowded slums. In the streets, they breathe air polluted in concentrations that rival the worst recorded in industrial lands. (See Chapter 6.) Lacking adequate sewerage and water supplies, they drink and bathe in water contaminated with both human and chemical wastes.[46]

The shantytowns of the poor are found in areas eschewed by the better off: in floodplains, on perilous slopes, around—sometimes in—garbage dumps containing unknown quantities of toxic materials, and near hazardous industrial zones. The fact that Bhopal's victims were overwhelmingly poor was no coin-

cidence; industrial accidents worldwide take the lives of those who cannot afford to live far from the belching stacks.[47]

The disproportionate exposure of the poor to pollution and hazardous materials has gone almost unmeasured in the Third World, but some idea of its magnitude can be gathered by examining the situation in the United States. Neighborhood-by-neighborhood comparisons of income level, race, and toxic waste site location reveal a disturbing but not so surprising pattern. The poorer the neighborhood, and the darker the skin of its residents, the more likely it is to be near a toxic waste dump. Three fourths of hazardous waste landfills in the American Southeast are in low-income, black neighborhoods, and more than half of all black and Hispanic Americans live in communities with at least one toxic waste site. As in the United States, so in the Third World: the rich get richer, and the poor get poisoned.[48]

In the United States, the poorer the neighborhood, and the darker the skin of its residents, the more likely it is to be near a toxic waste dump.

The environmental victimization of the poor extends beyond local hazards. The potential poverty impacts of global climate change are incalculable. Low-lying countries such as Bangladesh, Egypt, Indonesia, and Thailand could lose large areas of cropland as seas rise and storms become more severe in the next 30–40 years. (See Chapter 5.) Many of the world's most productive agricultural areas will suffer higher heat, reduced rainfall, or both, increasing the frequency of massive crop failures. (See Chapter 4.) Storms, floods, droughts, heat waves, famines, and social upheaval—all likely to be commonplace in a greenhouse world—are precisely the events, the poverty ratchets, that tend to make poor people poorer.

In addition, climate change could divert resources away from the poor on a scale unimaginable today. The debt burden of the eighties—on which UNICEF blames the death of a half-million children per year—could be dwarfed by the climate burden of the twenty-first century. Health, education, and antipoverty budgets would probably be slashed as governments poured hundreds of billions of dollars into sea walls, new irrigation systems, flood prevention, and countless other projects. Throughout economic history, hard times have almost always widened the gap between rich and poor. There is no reason to believe uncontrolled climate change will be a story with a different ending.[49]

With perhaps 580 million poor people trapped in the crushing downward spiral of economic and environmental deterioration, the future of poverty alleviation—and of environmental protection—will contain unprecedented challenges. Hundreds of millions already suffer from deforestation, desertification, fuelwood scarcity, erosion on mountain slopes, and urban air pollution. If, along with uncontrolled climate change, these other trends continue along their current trajectories, the poverty rate will almost certainly skyrocket, perhaps doubling worldwide by the second half of the next century.

In other words, following a business-as-usual course into the future could doom half of humanity to absolute poverty by sometime between 2050 and 2075. Whatever the numbers, if destructive environmental trends are not controlled, the downward spiral will accelerate out of control, pulling in many millions more.

Stabilizing Population

At the annual meeting in Berlin in September 1988, World Bank President Barber Conable urged developing countries to "renew and expand efforts to limit population growth," saying that rapid population increase was contributing to persistent and widespread poverty, which he described as a "moral outrage." Conable's comments reflected growing frustration within the Bank over the inability of many of its member countries to raise living standards. In most countries in Africa, and several in Latin America, average food consumption is falling and living conditions are deteriorating. In many of these countries, the restoration of economic and social progress now depends on quickly reducing population growth.[54]

Population stabilization is the only acceptable goal in a world where growth in human numbers is leading to a life-threatening deterioration of environmental systems. In 13 countries, home to some 266 million people, birth rates have already fallen to the point where births and deaths are in balance. Except for Czechoslovakia, East Germany, and Hungary, all are in Western Europe. They range from tiny Luxembourg to three of the four largest countries in Western Europe—Italy, the United Kingdom, and West Germany.[55]

Balancing birth and death rates was not an explicit goal in any of these countries. Fertility declined as economic and social conditions improved. As incomes rose and employment opportunities for women expanded, couples chose to have fewer children. The wide availability of family planning services and liberal abortion laws provided the means for them to do so.

The contrasting prospects of these countries and those where populations are projected to double, triple, or quadruple (see Table 10–2) is alarming. The experience of recent years indicates that rapid population growth and social progress are not compatible over the long term. Countries either make the shift to smaller families, as China has done, or their life-support systems begin to break down, as is occurring in many African countries. Given the conditions of these systems and the trends in per capita food production and income, many countries may have delayed too long in implementing effective family planning policies. They may now face a choice: adopt a one-child family goal or accept a decline in living standards. It is

Table 10-2. Projected Population Size at Stabilization and Increase Over Current Level, Selected Countries

Country	1988 Population	Projected Population When Stationary State is Reached	Ratio
	(million)	(million)	
Kenya	23	121	5.3
Uganda	16	82	5.1
Tanzania	24	123	5.1
Nigeria	112	529	4.7
Ethiopia	48	205	4.3
Zaire	33	142	4.3
Sudan	24	101	4.2
Ghana	14	58	4.1
Pakistan	107	423	4.0
Syria	11	42	3.8
Algeria	24	81	3.4
Bolivia	7	24	3.4
Iran	52	169	3.2
Bangladesh	109	342	3.1
South Africa	35	90	2.6
Egypt	53	132	2.5
Peru	21	48	2.3
Philippines	63	137	2.2
Mexico	83	187	2.2
India	817	1,698	2.1

Source: World Bank, *World Development Report 1988* (New York: Oxford University Press, 1988).

hard to imagine anything more difficult for a society than striving for acceptance of a one-child family goal except suffering the consequences of failing to do so. At this point, the only socially responsible step for the United Nations, the World Bank, and the international development community is to call for a sharp reduction in the world growth rate, one patterned after the rapid declines in fertility that occurred in both

Figure 10-1. Crude Birth and Death Rates in Japan, 1948-88

Japan and China. (See Figures 10–1 and 10–2.) In effect, each of these countries halved its rate of population growth within a matter of years.[56]

Following the loss of its wartime empire, Japan was faced with the reality of living largely on the resources within its own national borders. Living conditions deteriorated, leading many Japanese couples to want smaller families. This in turn prompted public discussion about population control. The Japanese government responded by legalizing abortion in 1948 and creating a national family planning program to provide contraceptive information and counseling. The result was a drop in fertility "unprecedented in the annals of world demography." Between 1949 and 1956, Japan cut its population growth rate from just under 2.2 percent to scarcely 1 percent. Remarkably, Japan made this demographic advance before the advent of modern contraceptives, such as the pill and the intrauterine device.[57]

Two decades later, the Chinese government also concluded that its fast-falling population/land ratio was threatening its future economic progress. This led to a decision to lower its birth rate. Between 1970 and 1976, China's popu-

Figure 10-2. Crude Birth and Death Rates in China, 1949-87

lation growth rate dropped from 2.6 percent per year to 1.3 percent. Although starting from a slightly higher point than Japan, it nonetheless cut its growth rate in half.[58]

These family planning breakthroughs in Japan and China are indicative of what nations can do if they are serious about slowing population growth. Countries that now want to reduce their birth rate can draw upon the experience of these two pioneers. And they have the advantage of a wider range of modern contraceptive technologies.

Given the experience of Japan and China, a global effort to cut world population growth in half by the year 2000 does not seem out of the question. The birth rate for the world of 28 per thousand population in 1988 is lower than the 33 per thousand that prevailed in Japan and China when they launched their fertility reduction campaigns. The 1988 world death rate is 10, midway between the 12 in Japan and the 8 in China when their efforts began. If national governments become serious, it is possible to lower the global birth rate of 28 to 19 by the end of the century, a decline of one third. Assuming that the death rate for the world remains at roughly 10 per thousand, this would cut the rate of world population growth in half, dropping it below 1 percent per year. (See Figure 10–3.)[59]

Much of this decline would have to occur, of course, where population growth is most rapid—Africa, Latin America, and the Indian subcontinent. Industrial countries, such as the United States, the Soviet Union, and Japan, where population growth is now well below 1 percent per year, can easily follow the industrial societies of Western Europe to zero population growth.[60]

Countries that have made the shift to small families typically have four things in common: an active national population education program, widely available family planning services, incentives for small families (and in some cases, disincentives for large ones), and widespread improvements in economic and social conditions.[61]

The starting point for an effective national population education program is a careful look into the future, a set of alternative projections that relate population growth to environmental support systems and economic trends. The model for this continues to be the projections undertaken in China in the mid-seven-

Figure 10-3. World Birth and Death Rates, 1950-88, With Projected Goal for 2000

ties as part of the post-Mao reassessment. One of the questions asked was, What will the future be like if each couple has two children? Under this assumption, the country would have added some 700 million people, roughly another India, to its population. When related to the future availability of soil, water, forest, energy resources, and jobs, it became clear that a two-child family would lead to a decline in living standards. China's leaders realized that only a one-child family was compatible with the goals and aspirations of the Chinese people.[62]

This information was then used in public discussions and debates, all the way down to the village level. People were involved in considering whether to accept two or more children per family and a decline in living conditions or to move quickly to a one-child family program and a more promising future. However difficult the choice, China opted for the latter, enabling it to achieve levels of infant mortality and life expectancy that approach those of affluent industrial societies.[63]

Undertaking these studies is an area in which international development agencies can be of major assistance. The key to meaningful projections is the integration of national demographic, economic, and ecological trends. Only when the three are combined can a useful view of the future be achieved. Only then do the choices become clear.

Another step with a potentially high payoff is the provision of family planning services to those not yet reached by existing service networks. Recent surveys in developing countries indicate that many women who wish to limit family size do not have access to family planning services. Few efforts to improve the human condition will pay a higher return on investment than filling this family planning gap.[64]

Societies that have quickly reduced family size have often relied heavily on a combination of incentives for small families or disincentives for large ones. Countries such as China, Singapore, and South Korea have typically offered free health care and in some cases free education through secondary school if couples agree to have only the one child or two children that circumstances call for. This approach is appealing because the free health care helps assure children's survival and the free education helps enhance their earning power, thus increasing the long-term financial security of parents in societies where people depend on their children in old age.[65]

In developing countries, many women who wish to limit family size do not have access to family planning services.

Any meaningful effort to slow population growth quickly will thus depend on heavy additional investments in the provision of family planning services, improvements in education and health, and financial incentives that encourage couples to have smaller families. Although such a broad-based effort could easily involve additional expenditures of $30 billion per year, it can be viewed by industrial societies, who would help provide financing, as a down payment on a sustainable future, an effort to protect the habitability of the planet.[66]

The formulation of population policies and the design of family planning programs are both handicapped by a lack of information. Although changes in birth rates may have a far greater effect on future economic and social trends in developing countries than any other

economic trends will, few such countries regularly collect and publish these data. The U.N. *Monthly Bulletin of Statistics* normally includes data on birth and death rates for only 34 countries, nearly all industrial ones.

If the United Nations could launch a monthly report on population and population-related issues and indicators, it would help fill an information gap that handicaps many family planners. Such a report could include information on national goals to reduce family size and progress in extending family planning services. A monthly population report could also provide national analyses of the characteristics of successful family planning efforts, material on the kinds of contraceptives that work best under various conditions, and country-by-country progress in restoring a balance between births and deaths.

At the national level, it now seems reasonable to expect governments to set family planning goals that will lead to improved living conditions. Some countries may find it necessary to press for one child per couple until the momentum of their population growth is checked. But for the world as a whole, two children may now be a more realistic goal. Accumulating evidence suggests that this is the only population policy that is consistent with restoring a worldwide improvement in living conditions. It is time for international leaders, such as the Secretary General of the United Nations and the President of the World Bank, to urge adoption of such a goal by all governments.

Breaking Out or Breaking Down

The demographic transition, a conceptual device used by demographers to explain the relationship between population growth and levels of development, has three stages. In the first, which characterizes traditional societies, both birth and death rates are high. Societies have existed under these circumstances for long stretches, for thousands or even hundreds of thousands of years, without any appreciable change in population size. Births and deaths are largely in balance.

In the second portion of the demographic transition, living conditions get better as public health improves, vaccines become available, and food production expands. In this stage births remain high but deaths fall. The result is rapid population growth. A society at this point would typically have a crude birth rate of 45 and a crude death rate of 15, yielding an annual population growth of 3 percent.

The third stage sees living conditions improve further, birth control become widely available and used, and births declining to again roughly offset deaths. A balance between births and deaths in a modern society usually occurs with crude birth and death rates of around 13. The United Kingdom, West Germany, and Hungary are among the dozen or so countries that have completed the demographic transition, reestablishing an equilibrium between births and deaths.

Societies can remain in either the first or the final stage of the demographic transition indefinitely. This is not true, however, of the middle phase. Populations growing at 3 percent per year multiply twentyfold in a century. Many developing countries have been in the middle stage since roughly mid-century. Those now in the fourth decade of 3 percent annual population growth are en route to the twentyfold increase in a century that this arithmetic dictates. Unfortunately, it is difficult to imagine any country, even one that was sparsely populated at mid-century, surviving such an increase with its biological support systems and social institutions intact.

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The evidence of recent years suggests that countries stuck in the second stage for more than a few decades experience mounting population pressures, pressures that eventually destroy forests, grasslands, and croplands. As these resources deteriorate, mortality rates begin to rise to reestablish the balance between births and deaths that nature demands. Countries that do not make it to the demographic equilibrium of the third stage will eventually return to the demographic equilibrium of the first. Nature provides no long-term alternative.

The mechanics of this "demographic regression," rooted in the changing balance between population size and basic resources, are becoming clear. For countries that remain in the second stage for an extended period, population growth eventually shrinks the cropland per person. Such areas are also likely to be losing topsoil due to erosion. In these situations, the technological advances in agriculture—plus any increases in fertilizer use that can be afforded—may not be sufficient to maintain per capita food production. The government must either use foreign exchange to import food or obtain food assistance from abroad. Because societies in the middle stage of the demographic transition are largely agrarian, a decline in per capita food production invariably translates into a decline in per capita income.

Many of the countries that have broken out of the second stage of the demographic transition have done so with the aid of cheap energy and relatively favorable population/land ratios. Others are finding it increasingly difficult to reach the point where gains in per capita income and the use of birth control begin to reinforce each other with substantial gains in living standards.

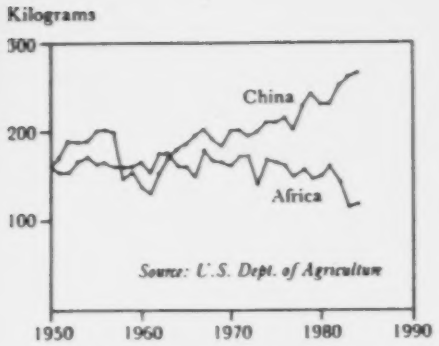


Figure 1-3. Grain Production Per Capita in China and Africa, 1950-84

The prospect of moving from the middle to the final stage of the demographic transition is perhaps best assessed by trends in per capita food production. China and Africa, with populations of just over 1 billion and 531 million respectively, illustrate contrasting prospects. China appears to be breaking out and Africa, having failed to do so, appears to be breaking down. (See Figure 1-3.)

As recently as the early seventies, per capita food production in China was little improved from the mid-fifties, the years immediately preceding the agriculturally disastrous Great Leap Forward. During the past decade, however, per capita food production in China has climbed at an encouraging rate. The rate of population growth has been halved since the early seventies, dropping to just over 1 percent per year. Grain production per capita in the mid-eighties averages over 250 kilograms per year, up by one fourth from the 200 kilograms per year of the early seventies. Even though China has serious environmental problems in agriculture, including soil erosion, and although its cropland base is likely to continue shrinking during the century's closing two decades, there is a good prospect that living standards in the nation will continue to improve through the end of the century.[36]

Africa, in contrast, shows no movement toward the third stage of the demographic transition. And time is running out. Population growth for the continent as a whole is close to 3 percent. The share of the population using birth control is minuscule. Grain production per capita in Africa was quite steady throughout the fifties and sixties, but it turned downward after reaching a postwar high of 180 kilograms per year in 1967. During the mid-eighties, grain production per person is nearly one fifth below the level of the late sixties. As noted in the opening of this chapter, several countries are reporting starvation deaths.[37]

In a recent report, the World Bank expressed concern about rising death rates in several African countries. Bank officials feel that in the absence of a major initiative, a number of countries will experience a disintegration of social institutions and will revert to "bush" economies. The seriousness of this situation led several West European members of the Bank in mid-1984 to call for the establishment of an emergency rescue fund for Africa. Without a sharply expanded effort in both family planning and farming, the prospect is that much of the continent will drop back into the first stage of the demographic transition.[38]

Without a sharply expanded effort in both family planning and farming, much of Africa will drop back into the first stage of the demographic transition.

Other major areas of the world have also remained in the second stage for a dangerously long period. The southernmost Andean countries in Latin America

—Bolivia, Chile, Ecuador, and Peru—have experienced a decline in per capita food production for more than a decade. Indeed, the trend in per capita grain production in these four countries is remarkably similar to that of Africa. (See Figure 1-4.) Grain output kept pace with population growth during the fifties and sixties but then was eventually overwhelmed by the increase in human numbers. As a result, per capita grain production has fallen by roughly one fourth over the past 15 years. The forces leading to a decline in per capita grain production in the South Andes are precisely the same as those in Africa—rapid population growth, widespread soil erosion and desertification, and lack of attention to agricultural development.[39]

If data were available for northeastern Brazil, a region containing some 43 million people, it would undoubtedly show a similar trend and for the same reasons. In addition to high birth rates and widespread soil erosion, this region may be suffering from climate change as well. Another major area of the world at risk is the Indian subcontinent. Population growth ranges from 2.4 percent in India to roughly 3 percent per year in Bangladesh, Nepal, and Pakistan. Under these conditions, grain output per person in the early eighties is little changed from the early fifties.[40]

With a population of 960 million and a growth rate in excess of 2.2 percent per year, the subcontinent has remained in the middle stage of the demographic transition for a dangerously long period of time. Cropland per person is shrinking, soil erosion continues, and population growth remains rapid, making it increasingly difficult for these countries to set in motion the self-reinforcing trends of rising food production per person and falling birth rates.

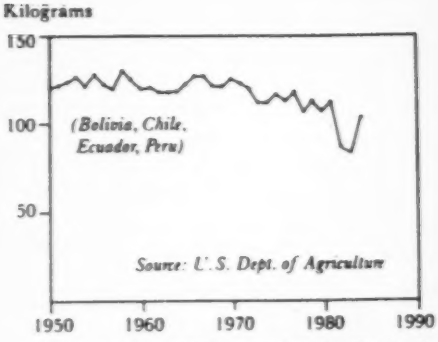


Figure 1-4. Grain Production Per Capita in South Andean Countries, 1950-84

Under the circumstances now unfolding there is growing uncertainty about how many countries in the middle of the demographic transition will be able to break out. By the end of the century the world may be divided into two groups: countries that have progressed into the final stage and those that have fallen back to the first stage. There are unlikely to be many countries left in the middle. The demographic transition in each nation will have been largely completed or aborted.

STATEMENT OF SENATOR BARBARA MIKULSKI

Senator LEAHY. Thank you very much.

Senator Kasten, did you have an opening statement?

Senator MIKULSKI. I will be happy to yield to Senator Kasten.

Senator LEAHY. I was going to ask both of you if you had an opening statement before we start questions.

Senator MIKULSKI. I just have one opening statement. I think in addition to improving the legal status of women, if we could teach every woman in the world to read and practice birth control, we will help this planet and we will help its people. And I am ready to help do it.

Senator LEAHY. We are showing a strong commitment in both the House and the Senate, I might say, in that regard.

Mr. Kasten.

STATEMENT OF SENATOR ROBERT W. KASTEN

Senator KASTEN. Let me ask unanimous consent to place my opening statement in the record. And I think it is important to point out that although there may be differences of opinion with regard to abortion, I believe there are very few differences in the Congress—House and the Senate, Republican and Democrat, with regard to the importance of the issues which this panel has brought to us today.

PREPARED STATEMENT

As you know, Mr. Chairman, when I was chairman of this committee, we significantly increased population planning money. We hit a high in 1985, and I know that you and I will do our very best in what has become a shrinking 150 account to recognize the importance of funding this particular area. And I look forward, Mr. Chairman, to working with you on a bipartisan basis in trying to increase the allocation of funds for population activities.

[The statement follows:]

STATEMENT OF SENATOR ROBERT W. KASTEN, JR.

Mr. Chairman, I would also like to welcome our panel of witnesses, to discuss this one topic which, perhaps more than any other, impacts greatly on all development sectors.

As you know, this subcommittee has been in the forefront of international environmental issues for some time, including our initiative on global warming, our almost decade-old concern about rainforest destruction, and biological diversity issues.

Though it is not often thought of as such, the population explosion in developing countries, as well as in our own, is very much an environmental issue. And, like our concern for the environment, we have expressed our support for population programs both verbally and through increased funding.

When I served as chairman of this committee, we provided some $1,432,000,000 in population planning funds—more than was requested by the Reagan administration—and almost as much as the $1,450,000,000 which had been appropriated for population planning in the preceding decade.

Mr. Chairman, I look forward to continuing our work on this issue, as well as with our witnesses today.

POPULATION EXPLOSION

Senator LEAHY. Thank you very much, Senator Kasten and Senator Mikulski, because I know both of you have strong concerns.

I think, Mr. Bissell, we know that the population explosion will eventually end. I mean, it can end by various means. It can be through family planning or it could be by famine or disease or just a wornout planet.

We have seen the problems throughout the world. You mentioned the Sudan. We see it in parts of South America and Asia. There are just too many people for what is a relatively small planet.

Now, in the best of circumstances, the world's population will reach 9 billion before it even begins to level off. The question is, will growth stop at the 9 billion or will it just inexorably continue on to a total of 14 billion? And do you think it is possible to stabilize the world's population at 9 billion?

Mr. BISSELL. My understanding of the estimates, that is, the future scenarios that you are describing, is that 9 billion is the most optimistic estimate. And, indeed, the eventual range if one is looking to the end of the 21st century—would be somewhere between 9 and 15 billion.

Senator LEAHY. It is a pretty wide range.

Mr. BISSELL. It is a very wide range, and that is why attention given to this area by this committee and by people in this country is crucial in terms of being able to influence that outcome to the lower end.

AID'S TARGET GOAL

Senator LEAHY. What is the position of the administration? Does AID have a target goal that they would like to see reached?

Mr. BISSELL. Our goal is not defined in terms of the overall number. Our goal is defined in terms of the number of people we reach. And we have operated for many years with a goal of reaching 80 percent of couples to practice contraception. We are not there. We are about halfway there, depending on whether or not you include the PRC.

Senator LEAHY. How can you have as a goal the number of people you reach, if you do not have as a goal what you think is an optimum population, or at least an optimum population increase. It is not AID's mission to try and reach people in Germany, Italy, the United States, obviously, Japan, Canada—places like that.

So AID's goal—the number of people you reach—seems to be backward. I mean, you could set as a target one country that may be insignificant in the picture and find some way of reaching 100 percent of the people there and say we have reached the goal.

Does it not make more sense to set as a goal what you think is the optimum population for the planet and see how AID and other countries that may help can reach that goal?

Mr. BISSELL. This is an old issue, Mr. Chairman. It is one that not only AID has examined, but also anybody working in this field, including international institutions, has examined. I find that we are generally uncomfortable with setting that kind of goal, in part because so many factors come into play. We are not talking, when we talk about overall numbers, simply about family planning programs. We are talking about health programs, we are talking about income programs, we are talking about education—as Senator Mikulski had mentioned. They all come into play in terms of influencing that outcome of the number of people on this planet, first of all.

And second is the question of how does one define goals objectively? What is, in fact, a sustainable level of population of this planet?

Frankly, I am too modest to suggest such an amount. There may be others who are more bold.

SLOWING POPULATION GROWTH

Senator LEAHY. Does AID have at least as a goal the slowing of the population growth?

Mr. BISSELL. Yes; it does. That is the whole thrust of our program. That is, we are clearly providing population and family plan-

ning assistance to developing countries so that they can, in fact, better develop a sustainable relationship between population, environment, and social systems.

Senator LEAHY. Having said that, when you respond to GAO's report, be sure and look at page 20 and where it says, "Despite AID's official comments in our draft report, AID officials consistently stated the reduction of population growth rates was not an AID objective."

Mr. BISSELL. We also disagreed with that.

Senator LEAHY. OK. Well, that is why I wanted you to have a chance to respond to it.

Mr. BISSELL. Thank you.

AID'S POPULATION BUDGETS

Senator LEAHY. Ten years ago, AID spent $189 million on population. Last year, as Senator Kasten and others have indicated, Congress appropriated $220 million. The three of us—Senator Mikulski, Senator Kasten, and myself—worked hard to get that increase because it was $20 million more than the administration requested.

Now, for next year, you have requested $193 million. That is a $26 million cut from what we appropriated last year. In fact, if we just want to stay even of where we were 10 years ago, counting in inflation, it is $75 million less, at a time when the population increase has been unbelievable. So, we increased the budget for population programs last year trying to send some kind of a message to the administration. You sent back a message that says just the opposite.

We sent a message saying it should be a priority, you have sent back a message saying not on our watch. How do you justify this cutback? If we continue funding at the level you suggest, around a couple of hundred million dollars, and other donors continue at the level they are at, how are we ever going to get to even begin to solve this problem?

I mean, would it not be better just to say, what the heck, we surrender, goodbye. Put the $200 million into something else?

Mr. BISSELL. Well, I certainly would not take that approach, Mr. Chairman, with all due respect.

It is a two-part answer. The first part is that, as Senator Kasten indicated, we reached a peak in 1985. And what we have been under since then is Gramm-Rudman. What that has done is to put an effective overall cap on development assistance. Within that cap, family planning has essentially maintained its percentage share, because we realize that a dollar for family planning is a dollar from somewhere else, and we find that many of the other programs——

Senator LEAHY. Wait. During that same 10 years, military assistance has gone steadily up, while family planning has gone down.

Mr. BISSELL. When you bring in the military assistance, you are getting beyond my reach, Mr. Chairman.

Senator LEAHY. I understand. I was trying to toss you something.

Mr. BISSELL. I understand.

Senator LEAHY. Maybe if we use the military—no, I do not even want to get into it. [Laughter.]

Mr. BISSELL. In any case, let me just say that from our perspective in AID, an additional dollar in family planning assistance is a dollar taken from somewhere else.

UNRESTRICTED FUNDING

Senator LEAHY. If you were not restrained by Gramm-Rudman, what would be a realistic budget?

Mr. BISSELL. It clearly would be rising. I do not know what the actual number would be. It would be a rising budget. There are many people out there who would avail themselves of family planning services. And we have found that in our research, as Sharon Camp alluded to, that in fact there is a potential audience out there.

But we have clearly operated under a severe restriction in terms of our overall budget authority for development assistance.

The second is, because you brought it up on the issue of other donors, is that what we have done since we have found little ceiling room in terms of the DA budget, is to aggressively talk with other donors. For instance, we welcome the fact that the World Bank is going to rapidly increase their funding in family planning, because the World Bank clearly has access to more money than we do in AID. You could look at the recent capital increases, the recent IDA IX negotiations, to see that there is more money there.

We are talking with other bilateral donors. Those who have room in their budgets are increasing their spending for family planning, and we are looking forward to working with them.

U.S. SHARE OF POPULATION FUNDING

Senator LEAHY. Ms. Camp, let me ask about that. Can we keep up this diminishing funding and still go to other countries and say you do more? Are we setting an example?

Dr. CAMP. No; we cannot. First of all, we have to set the example, and second, we are the most salient donor—have always been the most important donor in this field. We represent approximately 40 percent of international population assistance. In the early years, we represented nearly the total amount.

We are viewed by the world as a whole as the leading country on this issue in this sector. And the kind of mixed signals that we have been sending in terms of the importance that we still attach to this issue have been very damaging to family planning programs around the world.

I would hope that Congress would move as quickly as possible toward a funding level of at least $500 million for population assistance. This would be an appropriate U.S. share of the $2 billion that is needed immediately to meet simply the existing identified demand for family planning in developing countries.

If we could do that, we would be well on our way to reaching a global budget by the end of this decade of about $10 billion, which is what it would cost to bring world population—stable world population in under the level of $10 billion. In other words, double our current level.

We can do that, but just barely, and we have to take action in the next 10 years.

Senator LEAHY. I note that my time is up. I do have some questions for Mr. Brown, too, but I yield to Senator Kasten.

Senator KASTEN. Mr. Chairman, thank you.

GAO REPORT

There is one part of this GAO report on AID's Population Program to which I would like the two outside witnesses to respond, and then maybe Mr. Bissell could respond to it, also.

I am referring to pages 27 and 28 in the report having to do with—their sub-headline says, "AID has placed little emphasis on overall program evaluation." Let me just lift a couple of quotes out of here and then ask for your response.

Is this your sense of the way things are going? It says, for example, "AID has not placed enough emphasis," and I am speaking now from the top of page 28, "has not placed enough emphasis on evaluating program outputs, such as the overall impact of its family planning program, or the impact of project activities within recipient countries." It goes on, "AID has delegated authority for program implementation to 43 geographical bureaus, overseas mission and the office of population. There is no single program office or officer with overall program oversight authority. The system of management has left a void in responsibility for program implementation, evaluation and oversight." Few countrywide reviews or impact evaluations. Only 9 of 78 external evaluations performed between fiscal years 1984 and 1988 focused on country-specific programs.

The group found that AID's approach has been unsystematic and as a result the quality of AID evaluations has been uneven, despite the considerable costs, and have had relatively little influence on project design and management. A number of these problems may result from AID's decentralized evaluation system. No common criteria or standards have been established, et cetera.

Let us assume that we are going to the face difficulties we have with regard to the budget, and clearly we are. In your experience, does this evaluation section of the GAO report match up with your personal experience? If it does, what should we be doing here to ensure that AID has a better system of knowing that for the dollars that we are spending, we are getting the services that all of us in this room, at least, are looking toward?

Mr. BROWN. My concern goes far beyond this report. I am concerned because during the 1980's in two continents, namely Africa and Latin America, food consumption per person declined, hunger increased, malnutrition increased, infant mortality increased. We are now looking at a situation where rapid population growth is probably the principal though not the only force that is leading to a deterioration in the human condition for literally hundreds of millions of people.

And my concern is, in looking at what is happening to life support systems throughout the Third World in particular, that if we cannot get the brakes on quickly, that we are going to see a degree of economic instability and political instability that will make us wonder where we were in the late 1980's and the early 1990's when these conditions were unfolding.

It looks to me as though we are going to be faced, within the next few years, with a world food emergency unlike any that we have seen before. We have done two analyses of the food prospect for the 1990's. Both indicate that the world's farmers are going to have trouble expanding food production at more than 1 percent per year, when population is projected to grow at nearly 2 percent per year.

I doubt very much that the projected numbers that we have been talking about, whether it be 9 billion, 10 billion, or 14 billion are going to materialize. It looks to us as though the increase in malnutrition, increasing death rates, rising infant mortality rates in many countries are going to check population growth long before those doublings and triplings occur.

My sense is that we ought to be redefining security in a very fundamental way, looking at security in the broadest possible sense, and recognizing that environmental degradation and population growth and the resulting political instability is the real threat to our long-term future, and stepping back and providing some leadership to the world.

We have resources the rest of the world does not have. We have information that the rest of the world does not have. We have an information-gathering network that is unique. We do have some sense of what is happening in the world and my sense is that the time has come for us to begin looking at the issue in reality at what is happening and ask ourselves what should the United States be doing in this situation.

And I think we ought to be redefining security, quite literally, recognizing that population growth is posing a far greater threat to our security, narrowly defined, than military aggression.

PROGRAM EVALUATION

Senator KASTEN. Can you help us with regard to my question about program evaluation?

I understood what you said, but can you respond specifically to program evaluation or are you not able to do that at this time?

Mr. BROWN. I think program evaluation is a good idea, but I think we need a program on the scale that is worthy of evaluation. I do not think that we have it at the moment.

Senator KASTEN. Sharon Camp. I am thinking that you all have been out in the field.

Dr. CAMP. I would very much like to comment on the GAO report which I have not seen, but the portion that you read is a very important critique of the program.

As you may recall, Senator Kasten, because you have been on the subcommittee for many years, between 1972 and 1977, the program was centralized within a single population office, where a critical mass of expertise existed and drove the program very strongly. Those were the years in which we saw the greatest birthrate declines around the world, the greatest innovation in terms of new population programs.

In 1977, the program was decentralized. The trend has been, since then, toward further decentralization. The problem with decentralization in AID is that there is in the geographic bureaus of

AID and out in the field missions, insufficient technical expertise to make good judgments about programs in every case, or to do the kind of evaluation that you are suggesting—that GAO suggests—might be done.

I think one of the critical things that this committee could do would be to reestablish some kind of central signoff for the allocation of population funds so that the dollars that are available are surely allocated to the very best possible uses.

One of the problems that I do not know if the GAO report addresses but which concerns us very much in the population community, is that population funds are, to a much greater degree in recent years, being used to pad up country aid budgets rather than to solve population problems.

And if you look at which countries are demographically most important in the world, those are not necessarily the countries which are getting the AID dollars for family planning. So, I would like to see this committee urge AID to allocate population funds in such a way as to maximize declines in birthrate and to minimize the use of population funds for short-term foreign policy objectives.

Thank you.

Senator KASTEN. I have been on this committee awhile, but I was not here in 1972–77. I am simply asking whether or not this part of the GAO report is correct.

Mr. Bissell, could you respond?

Mr. BISSELL. Yes; I would like to respond briefly, because, in fact, the subject of evaluation is something that we have talked to the GAO a good deal about.

One of the things that hampered the study unit in the GAO was that they were unable to travel abroad. So, as a result, their ability to actually examine the evaluation process——

Senator KASTEN. Excuse me, they did this study and they did not travel abroad at all?

Mr. BISSELL. That is my understanding.

Senator KASTEN. This whole study was done from Washington, DC or New York?

Mr. BISSELL. According to the GAO report, the study team visited organizations in Washington and New York.

Senator KASTEN. Well, that seems to me to be crazy.

Mr. BISSELL. We have operated over the last decade with a view that there was built into every project a very extensive country-based evaluation system, which is, insofar as our programs are country focused, a key ingredient.

We have reviewed in Washington the evaluations done on a project basis quite regularly, but not in the sense that Sharon describes as a signoff system.

Because we have heard this issue come up in areas from sources other than the GAO, we are in fact in the process of establishing a central evaluation unit here in Washington in the Population Office to make sure that we are not overlooking an opportunity to pull together the evaluations and know how the money is being spent.

We will, in the course of the next few months, be finding the personnel slots, scarce as they are, to create the evaluation unit and

make sure, across the entire population program, that those moneys are being spent as efficiently as possible.

Senator KASTEN. Mr. Chairman, thank you.

Senator LEAHY. Senator Mikulski.

Senator MIKULSKI. Thank you, Mr. Chairman.

I want to pick up on Senator Kasten's line of questioning, but first, Mr. Bissell, I know of your strong commitment to improving the status of women in the world. Your support on the women in development legislation was most appreciated.

CENTRALIZATION VERSUS DECENTRALIZATION

Coming back to the GAO report, I note that you received, meaning AID received, high marks for program coordination with other donors. That is rare in government agencies to get good marks for coordination, particularly with external groups, which is very important.

But the report does go on also to raise questions not only about the management, but about the issue of centralization. Turning to page 32, in the conclusions it raises the fact that "Despite significant funding allocated for population assistance, AID has not exercised strong program oversight and evaluation."

Senator Kasten just took up the evaluation issue, but it also says, "No one unit is held accountable for program efficiency and effectiveness." I think that is a significant statement in terms of kind of a one-stop shop that we can turn to for data management and also for asking the question, are we effective, are we efficient, so that we can use our money smarter.

Could you comment on that and then knowing your concern for efficiency and effectiveness, what your recommendation would be?

Mr. BISSELL. I understand the issue you are raising, Senator Mikulski, and I think that our situation in family planning programs is characteristic of many sectors in which the Agency works: that is, there is a strong argument for centralizing our efforts in the sense, as you say, of creating comparable effectiveness and efficiency criteria.

On the other hand we are under pressure to decentralize in order to get our services closer to the ultimate users and in that way, to encourage the emergence of organizations, both within developing country governments and in the private sector in developing countries who are on the ground, and are working with our missions in the field.

That tension is something we live with all of the time and is expressed, in effect, in our family planning programs as well. Given this tension, the degree to which our programs, indeed, share common indicators of effectiveness and efficiency bespeaks the esprit among our population staff workers who are in frequent contact. They know that they are working for a good purpose and are capable people, and therefore are able to maintain a good deal of that comparability informally.

We do not have as thorough, as you point out and as GAO points out, a formal, centralized mechanism which would take the Agency in that direction which existed many years ago, but from which we have moved in the last decade.

Senator MIKULSKI. Well, I can appreciate the need not to have centralized control or centralized planning. In fact, that is almost anti the way Americans like to work.

But the recommendation here is that no single office has the authority for setting program priorities and coordinating project activities and evaluations. This would seem an appropriate function for a headquarters—to determine the priorities either of a national or programmatic focus and certainly evaluations so that there would be a systematic assessment and the kind of coordination that you need.

In the field, you do need ingenuity, resourcefulness, creativity, cultural adaptation that is appropriate to an Islamic culture as compared to a Catholic one or an African one.

Mr. BISSELL. Your points are well taken. They express one of the reasons why we are establishing the central evaluation unit.

The division of function between Washington and the field is a tricky one. To give you an example, one of the things that has moved increasingly to the field—to our field missions—is the coordination with other donors. In that way we are becoming much more country specific, as opposed to being Washington based. And by having AID missions feel that they are, in effect, taking the lead in their field programs, they work with other donors, whether bilateral or multilateral, in country, in a way to strengthen coordination.

Now, there are always judgments to be made, and these functions could move back and forth between the field and Washington. I and the new Administrator are looking at trying to establish the right balance in terms of where we go in the future.

Senator MIKULSKI. Well, I would encourage that.

USE OF POPULATION FUNDS FOR OTHER PROGRAMS

Dr. Camp, I would like to turn to you. You just made a comment that has caught the ear of the chairman and myself, and I believe Mr. Kasten.

You said sometimes population funding in local areas looks like it gives the sense of padding the donor or the AID budget?

I did not quite understand what you said. Could you repeat what you said and what you meant?

Dr. CAMP. Certainly. Senator Mikulski, beginning in about 1985, really for the first time in the history of the program, AID began to tap the population account, the amount of money appropriated by Congress for population assistance, for other kinds of nonpopulation needs. Some of this money was transferred out of the account. Other was left in the account, identified as population money but not, in fact, expended for population activities. In part, this results from needs within AID for which there were not adequate funds appropriated.

But in situations where population funds are well below what is needed, the loss of anywhere between $10 million and $15 million out of congressionally appropriated accounts, is a very serious diversion of funds away from increased family planning services. And I would hope that there would be something that could be done to avoid that.

The other problem to which I alluded——

Senator MIKULSKI. When you say tapped, do you mean reprogrammed or do you mean——

Dr. CAMP. Some of it is, indeed, reprogrammed from one account to the other. Others, for instance, in countries like the Philippines where money has been needed to meet certain negotiated obligations with the Philippines Government, population funds have been assigned to the Philippines. But given the political situation in the Philippines, it is highly unlikely that such money will be effectively used in the near term for family planning programs.

So, what I would hope AID could do in the future is to allocate population funds not for those kinds of reasons, but because countries have both the need and ability to launch strong family planning programs. Money is not always allocated by AID along those criteria.

U.S. PARTICIPATION IN UNFPA

Senator MIKULSKI. Well, let me ask you another question, knowing my time is moving quickly.

The AID approach, certainly in this decade, has been for bilateral relationships with countries. This meant that we have not participated in either UNFPA or the International Planned Parenthood Federation.

As you know, that issue has been a subject of significant controversy between the administration and the Congress. But I am not trying to draw you into that subject. You know my views.

Could you tell us, as someone who really deals very seriously in population issues, do you feel that we are short-changing the people of the world, and that we could also maximize our resources and even needy countries if we moved into UNFPA, or do you think the bilateral approach is sufficient? And again, I am looking at it almost from a technical answer, rather than drawing in the controversies.

Dr. CAMP. The bilateral approach is very strong. AID funds some of the strongest population programs anywhere in the world. But it is not sufficient.

About a year and a half ago, I was out in India and I met with top officials of the Indian Health Ministry. And one of them said to me that by withdrawing from the U.N. Population Fund and the International Planned Parenthood Federation, the United States was, and I quote, "threatening to undermine the global consensus on family planning."

For most countries in the world, including other donor countries, the U.N. Population Fund and the International Planned Parenthood Federation are the principal agencies that work in this sector. Most other donors do not have big bilateral programs. They provide most of their funding through these two organizations.

So that by withdrawing from these two organizations, for whatever reasons, we have sent a signal to many other countries that we consider this problem less important than we did in prior years, or we consider family planning less important a means to its solution.

Senator MIKULSKI. Thank you.

Do I have time for another question?

Senator LEAHY. Go ahead.

Senator MIKULSKI. I have a question then related to really programmatic content.

FAMILY PLANNING IN ISLAM COUNTRIES

Mr. Bissell, as we do our work around the world, we see a huge population growth is both in the Middle East and parts of Southeast Asia. But where there is an Islamic faith preference, how has family planning been accepted there on our bilateral approach, and what types of programs have we developed that are culturally acceptable within that?

Mr. BISSELL. I am impressed with events in recent months, including the views expressed by various Islamic conferences in favor of family planning. I think over the course of the next decade we will make real measurable and significant progress among a faith that in the past, has been hostile toward family planning, and improving the status of women in the Islamic world.

We have increasingly worked in countries ranging from Indonesia to the Middle East and have found ways of developing health worker and family planning worker projects to interact with women in these societies.

While I would have to confess that progress quantitatively is quite small right now, we are seeing signs that we have a real foundation to build on in the coming decade.

I can get more information for you for the record if you wish. I am sure that Sharon Camp knows more about the issue.

[The information follows:]

POPULATION AND FAMILY PLANNING IN ISLAMIC COUNTRIES

The Islamic nations are the world's fastest growing population group. At current rates of growth, the 1988 estimated population of some 980 million Moslems could nearly double to 1.9 billion before the year 2020, accounting then for 23 percent of the world's total population. The Islamic nations tend to be farther behind in the demographic transition from high to low birth and death rates than other major categories of nations. As a group, they have the highest fertility levels, the highest mortality and some of the highest rates of growth. In addition, the high rates of fertility lead to very young populations—an average of 43 percent of the population is below the age of 15. Islamic nations are also among the most rural in the world averaging 60 percent rural.

However, these demographic generalizations conceal noticeable regional and temporal diversity in fertility, mortality and population growth among Islamic nations. For example, total fertility rates (TFR) are highest and life expectancy lowest for Islamic nations of sub-Saharan Africa (TFR: 6.6; life expectancy: 45 years). The Southeast Asian countries of Indonesia, Malaysia and Brunei have fertility levels that are well below those of other Islamic nations (TFR: 3.6 vs. 6.0 for all Islamic countries). Fertility has also declined noticeably in North Africa and to some extent in Western Asia as well.

Perceived barriers to family planning acceptance in Muslim countries include religious teachings and low status of women. The number and spacing of children is widely believed to be the "will of God."

While the Koran does not prohibit contraceptive use, it is interpreted by some religious leaders to proscribe their use to certain specific situations. Status of women is generally measured by access to education, participation in the labor force, and life expectancy compared to men, among other indicators. An index of status of women based on these indicators shows that 16 of the 20 lowest-scoring nations are Islamic.

Family Planning Successes.—The governments of many Islamic nations support family planning. Such support ranges from implementation of family planning pro-

grams or support for voluntary family planning associations to permission for the distribution of contraceptive methods in public and private medical and health care facilities. Some Islamic countries including Indonesia, Morocco, Tunisia and Egypt have made impressive gains in promoting contraceptive use and reducing fertility rates.

Indonesia.—Indonesia, with a population that is 88 percent Muslim, is the nation that has probably made the greatest headway in reducing its rate of population growth. Between 1955–60 and 1987, the total fertility rate in Indonesia declined by 42 percent. The immediate explanation for the drop in fertility was the rapid increase in contraceptive use among married couples of reproductive age from 3 percent in 1971 and 1972 to 48 percent in 1987. Important to the success of the Indonesian family planning program has been the strong support by political and religious leaders.

Egypt.—Although family planning activities have been present in Egypt for a quarter of a century, there has been a definite acceleration of accomplishments during the last few years. Since 1984 when it was 30 percent, prevalence has been increasing at an annual rate of 2 percent. Contraceptive prevalence among currently married women of reproductive age reached 38 percent in 1988. A large part of this increase is due to increased use of effective modern methods of contraception, notably the IUD. There has been a dramatic, positive change in the political commitment to address population issues. Whereas past policy statements were sporadic, today they are frequent and forceful calls to action.

Morocco.—Fertility has declined considerably during the 1980's in Morocco. Fertility rates declined by 21 percent between 1980 and 1987, from an average of 5.8 children per woman to 4.6. Most of this decline is due to fewer births to women under age 30. Since 1980 contraceptive use has increased by 85 percent from 19 to 36 percent, but use is still concentrated among the urban and educated woman.

Tunisia.—Fertility has declined by 25 percent during the past decade from an average of 5.7 children to 4.3 children per woman of reproductive ages 15–44. Regarding family planning, half of all married women are using contraception, mainly the IUD and female sterilization. Contraceptive use is lower among rural and uneducated women and in the Central West and South regions. Public-sector services and pharmacies are the main providers of family planning methods. Nearly two in five married women are estimated to be in need of family planning services although half of these women plan to use such services in the future.

In conclusion, some Islamic nations, including Indonesia, Egypt, Tunisia and Morocco, have been making headway in promoting contraceptive use and reducing fertility rates. Obviously there is room for considerable improvement. Yet, all of the evidence suggests that Islamic nations are as likely to respond to this challenge as are other developing nations.

FAMILY PLANNING IN ISLAMIC COUNTRIES

Senator MIKULSKI. Ms. Camp, did you want to comment?

Dr. CAMP. If there is time I would be delighted to comment.

We have made substantial progress in a number of Islamic countries. I would mention in addition to Indonesia, which now has contraceptive use levels of almost half of fertile couples—it is doing very well—in Bangladesh, one of the world's poorest countries, one of the countries in which the status of women is very, very low, we are now up to over 30 percent contraceptive use levels. And in some areas where the programs are very, very good, some experimental areas, conceptive use levels are above 45 percent.

So, Islam does not appear, at this point, to be a major barrier in most countries. I think the key is that political leaders have decided the problem is important; they have worked with religious leaders in these countries to overcome any objections to contraception. And the result has been that in a number of these countries we are making very rapid progress now.

Senator MIKULSKI. Mr. Chairman, I know my time has expired; I appreciate the extra time. I just wanted to probe that area because

I think it is important that family planning be voluntary and that it be culturally and religiously sensitive and appropriate.

So, thank you for your comments.

Senator LEAHY. Thank you very much, Senator.

POPULATION AND THE ENVIRONMENT

Mr. Brown, AID's submission to us said that AID will expand its effort to assure that population is a priority agenda item for environmental groups. Is it already a priority item for environmental groups?

Mr. BROWN. I think most environmental groups in this country are focused more on conditions here than abroad. But I think increasingly we are seeing environmental groups become active on the population issue. I sense in the last year or so a rising level of awareness that if we do not deal with the population issue, we may not be able to solve many of the environmental problems that the world is facing. And that ranges from the protection of biological diversity to stabilizing climate.

CAPACITY OF THE PLANET

Senator LEAHY. It worries me. I wonder, is there any consensus among the experts of what the carrying capacity of the Earth is? I realize it is a terribly broad question, but is there a point at which the number of people that are being born equals or exceeds the number dying from famine and disease caused by overpopulation?

Mr. BROWN. There are two levels at which to look at that. One is what is happening to basic life-support systems: grasslands, croplands, forests and what have you. By that criterion, almost every developing country is experiencing steady deterioration in its life-support systems. That is the first level of analysis.

The second level of analysis comes at what are the social facts of the deterioration. We are now beginning to see those social effects. I would point out that living with a 3-percent rate of population growth is historically a rather recent phenomenon, as Sharon's chart earlier indicated. And we are in a sense on unchartered territory, because we know that in almost every developing country the local life-support systems are deteriorating, but we do not where that is going to take us.

I mean, we can look back in history and see what has happened to various civilizations, from the Mayan civilization that lost 90 percent of its population in a matter of decades, to Ireland which has only half as many people today as it did in the 1840's. We know that adjustments do occur, some of them rather harsh. My concern is that we are moving into a period where we are going to be seeing more and more harsh adjustments and an international community less and less able to respond on the food side.

My frustration with this particular hearing is that we are playing around with the chairs on the deck without realizing what is happening to the ship. The ship is in trouble. What I think we ought to be doing, and what I think you, as members of U.S. Senate ought to be doing, is trying to see what the possibility is for, quite literally, redefining security in the broadest sense and to get population on the table, along with—and all the environmental

changes that it is leading to—along with military threats to see where we are coming out.

I think an objective analysis would argue strongly for pushing several billion dollars into the family planning field to at least make sure that all the women in the world who want access to family planning services can get them. That would serve the interest of proabortion and antiabortion groups alike because it would reduce the need for abortion, which more and more women throughout the Third World are now being forced to resort to because they do not have access to family planning services.

Senator LEAHY. I have a number of other questions for each one of you which I will submit for the record.

It is interesting that domestically we are talking about some of the same issues that we have touched on here while trying to put together the 5-year farm bill, which has to be presented to the Senate in another month. We hope to complete it in committee this week or next, and I have got to go to that because we have been doing some of these same tradeoffs in our own country. How do we preserve the environment and still produce the amount of food we want and keep it economically viable and so forth, and maintain the kind of reserves that can be used for humanitarian purposes?

I will turn the hearing over to my two colleagues and ask Senator Mikulski to take the gavel. I will yield to Senator Kasten, whose service predates mine on this subcommittee anyway and has been wrestling with these problems for years.

GAO REPORT

Senator KASTEN. Mr. Bissell, first of all, I have a comment. I have had an opportunity during this round of questioning to respond to your statement, and I am struck by the fact that on page 11 of this GAO report the GAO themselves say they met with bureaucrats in Washington, DC, evidently took a trip to New York City to meet with some bureaucrats there, and that was the extent of what they did to create this report. They stated specifically, "We did not perform work overseas" and list only two places that they were in, evidently, New York and Washington.

I understand some of the countries that are most affected by these issues might not be the countries that bureaucrats here in Washington would chose to travel to.

But recognizing the fact that they went to Washington and New York and did not do any work overseas, it is hard for me to believe that that is the way they could do a complete report.

CATEGORIZING EXPENDITURES FROM POPULATION ACCOUNT

Mr. Bissell, the money in the pot last year was $220 million plus $50 million if we take the money from the Africa funds, so we are talking about $270 million. Of the $270 million, how are these dollars being spent?

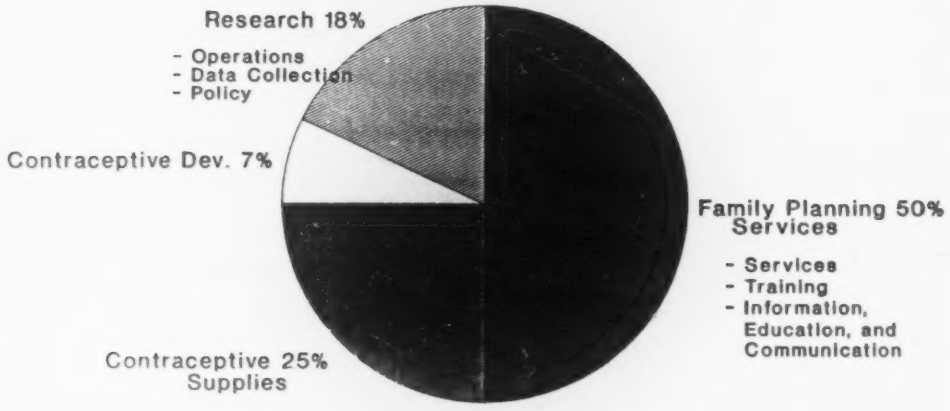
For example, can you show that most of the funds are used to purchase and distribute birth control devices, to otherwise provide direct family planning services? Do you have breakdowns as to what is being used for overhead and what is being used for re-

search? Some in this room are advocates for research as well as for direct family planning/birth control devices.

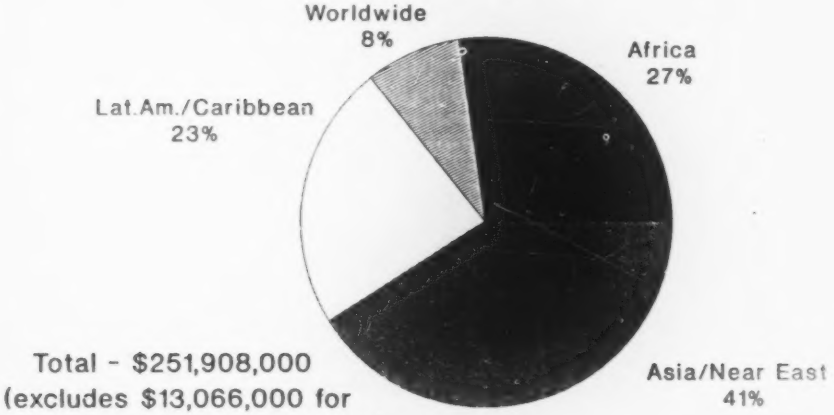
Specifically, can you tell me how much you spent last year and will spend this year with regard to procurement of birth control devices? We are talking about pills, condoms, et cetera.

Mr. BISSELL. We break out our budget in two ways. I have charts over here on the side that will illustrate it for everybody.

A.I.D. Population Assistance by Program Area, FY 1989



A.I.D. Population Assistance by Region FY 1989 Expenditures



Total - $251,908,000
(excludes $13,066,000 for contraceptive commodities)

Sources: 1. 1990 Congressional Presentation, A.I.D.
2. Population Projects Database, A.I.D., April 1990

Mr. BISSELL. Geographically, we can break it out where the largest share, 41 percent, goes to Asia/Near East. A smaller percentage, 27 percent, goes to Africa and so forth.

To answer your question directly, in terms of program area about 25 percent goes into contraceptive supplies. That is in the $60 million range. One-half of it goes into family planning services, which is the dark, shaded area on the right, which, as I indicated in my introductory comments, is certainly to AID's comparative advantage. Our ability to provide management support, training, and information support helps out enormously. Finally, research and contraceptive development occupies another 25 percent, the two segments of the pie in the upper left-hand corner.

Senator KASTEN. I am sorry to make you repeat the testimony that you gave to the committee before I arrived here.

Mr. BISSELL. Actually, I had not introduced the charts. I appreciate your asking the question.

RESEARCH VERSUS OPERATIONS EXPENDITURES

Senator KASTEN. I suppose there may be important reasons that you are spending almost as much on research as you are on actual contraceptive supplies.

Mr. BISSELL. Yes; there is. In fact, the American capacity for good research in this area is substantial, and we bring to it a long tradition over the decades in the United States, both in medical schools as well as in the private sector, for the work that has been in terms of developing contraceptives. So, relative to a number of the other donors, I think it is very valuable for us to put money into contraceptive research.

The largest component is not actually development of contraceptives. The largest component is what we call operations research and related activities, which is research in terms of how to manage and promote, how to carry out and implement good, sustainable family planning programs. Because we can carry over some of the research from other sectors, for instance, in child survival and education, and apply them in family planning as well as developing ones that are unique to family planning, we do bring a real comparative advantage in that sector.

Senator KASTEN. Thank you. Mr. Chairman.

ADDITIONAL COMMITTEE QUESTIONS

Senator MIKULSKI [presiding]. We are going to conclude this hearing and submit the rest of our questions for the record.

We want to thank AID and representatives of the private, nonprofit sector for their testimony.

I think Mr. Brown's comments are well taken in which he really wants the committee and the Senate to realize that when the four horsemen of the apocalypse ride, the overriding wagon is population. Whether it is famine, war, pestilence, or death, which are the security issues that we would all agree upon by biblical definition, population is one of the driving forces. So, we are aware of the security needs and we will see what we can do to improve this program.

Thank you very much for your testimony.

[The following questions were not asked at the hearing, but were submitted to the Agency and witnesses for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

GAO REPORT

SENATOR LEAHY: One of the GAO's findings was that although Congress set a goal of reducing population growth rates, the Reagan Administration treated population growth as a "neutral phenomenon" -- that is, neither good nor bad. A.I.D. then shifted its focus to supporting family planning to improve maternal and child health, rather than to reduce population growth rates.

The GAO says "A.I.D. has no projects specifically directed toward motivating people to have fewer children."

GAO also reports that A.I.D. no longer initiates discussions on population control with countries that are not already trying to control population.

What are the policy justifications for A.I.D.'s population programs?

MR. BISSELL: A.I.D. is concerned with slowing population growth rates and our policy is based on economic, health and human rights rationales. The 1982 population policy paper stated that "continued high rates of population growth significantly increase the cost and difficulty of achieving basic development objectives by imposing burdens on economies ..."

This led to policy dialog efforts with the leadership in developing countries that demonstrate the impact continued high rates of population growth will have on the environment, educational systems, and basic social and economic systems of their country. At the "grass-roots" level, A.I.D. has a number of information, education and communication programs that specifically motivate couples to have smaller families by disseminating the message that family planning can lead to healthier families with more economic security.

In the mid 1980s, the linkages between maternal and child health and family planning became clearer, particularly the notion that proper birthspacing can have a dramatic effect on the improvement of maternal and child health. A.I.D. has also long been concerned with voluntarism and choice, and has recognized family planning as a key enabling factor for improving the status of women.

The best way to lower population growth rates is to increase the use of family planning services. Therefore, A.I.D. has been more concerned with delivering these services. This focus has been the centerpiece of our programs, and has proven successful. As our response to the GAO outlined, we have seen results from providing services: fertility rates have fallen, and contraceptive prevalence has risen.

GAO REPORT - POLICY GOAL

SENATOR LEAHY: Does A.I.D. have as a goal reducing population growth?

MR. BISSELL: While A.I.D. does not have a goal that specifically calls for reducing population growth, in effect, A.I.D.'s goals and objectives work directly toward this very important objective. Fostering lower population growth rates is at

the heart of our program. To achieve this, A.I.D. has articulated a quantitative goal of providing 80 percent of the developing world's couples with access to family planning services by the year 2000.

GAO REPORT - COUNTRY POLICY DIALOGUE

SENATOR LEAHY: What about countries that are not doing this themselves? Do you affirmatively seek to persuade countries to adopt population policies--or do you merely respond to requests from countries for assistance?

MR. BISSELL: A.I.D. carries out policy dialog with developing countries to develop population policies wherever possible, regardless of what their current population policy is.

Several of our projects are designed to assist developing countries in the development as well as the implementation of population policies. In addition, there are a number of projects that actively promote lower population growth. These include policy dialog efforts such as the RAPID project which uses microcomputers to show the consequences of high rates of population growth and the benefits of lower growth . In addition, information, education and communication efforts often focus on messages promoting smaller families.

GAO REPORT - REDUCTION IN POPULATION OBJECTIVES

SENATOR LEAHY: How do you respond to the statement on page 20 of the GAO report, that "despite A.I.D.'s official comments on our draft report, A.I.D. officials consistently stated that a reduction in population growth rates was not an A.I.D. objective."

MR. BISSELL: A.I.D.'s policy supports population growth rates consistent with sustained economic development. It is clear that economic development is severely threatened by high rates of population growth, and this assumption is at the heart of our population program. As our response to the GAO report stated, it is far more effective to let each country set its own specific goals. Through our policy dialog efforts, we consistently present convincing evidence that lowering population growth rates is beneficial.

Judging by the number of countries that have adopted population policies in the last decade, this approach is an effective one. Between 1975 and 1988, the number of countries officially favoring lower population growth rates more than doubled from 31 to 68.

Recent data indicates that A.I.D.'s emphasis on delivering services is successful as fertility rates are declining in Kenya, Zimbabwe, and Botswana. This is a first for Africa.

GAO REPORT - MANAGEMENT

SENATOR LEAHY: The GAO found that A.I.D.'s population program is implemented by 43 units and there is no single individual or office with overall management reponsibility. It recommends a centralized management system to oversee the whole A.I.D. population program.

What do you think of this idea? Would you support centralizing management of A.I.D.'s overall population activities in a single place in the Agency?

MR. BISSELL: A.I.D. feels the description of our population program as "implemented by 43 units" is somewhat misleading.

A.I.D. is a decentralized agency and is deliberately so. The 43 units include 39 field missions all of whom report to their respective geographic bureaus. Each geographic bureau has an office concerned with population which closely coordinates and monitors the field programs.

The central Office of Population interacts frequently with the Washington-based geographic bureau offices and with the individual field missions through regular meetings, working groups, and conferences, along with telephone and correspondence communication.

Decentralization is a conscious effort: by vesting control at the field level and tailoring programs to the needs of each particular country, programs are more effective. Indeed, this approach is considered to be one of A.I.D.'s strengths by the donor community.

A.I.D. is currently implementing a centralized management information system that will further facilitate the close collaboration between the field and the central offices. The Activity Codes/Special Issues Codes system will comprehensively describe the types of programs and projects, and will collect and report on obligation data as well as the objectives and components of each program and project.

GAO REPORT - MANAGEMENT AND USE OF RESOURCES

SENATOR LEAHY: GAO says you do not have anyone responsible for ensuring that the programs are effectively and efficiently using resources. What is your response?

MR. BISSELL: While there is no single person responsible for overseeing the entire program, each of the four bureaus implementing population programs, (the central Science and Technology, and three geographic bureaus) is responsible for programming resources as effectively as possible. Mission population programs are also integrated with other in-country A.I.D. programs and are part of each mission's strategy. The Policy and Program Coordination Bureau is responsible for overall resource coordination. The central Office of Population also operates to ensure that programs are effectively and efficiently using resources. This is done through frequent contacts with the Washington-based geographic bureau offices and with the individual field missions through regular meetings, working groups, and conferences, along with telephone and correspondence communication.

In these times of Government-wide budgetary constraints, we are making a concerted effort to use our resources as effectively and efficiently as possible. The population program has been taking great strides to increase the effectiveness of resources through work in the private sector, management and operations improvement programs, and coordination with other donors. In addition, our expanded evaluation efforts will help to make our programs more efficient and help to target resources even more carefully.

GAO REPORT - EVALUATION

SENATOR LEAHY: The GAO also criticized A.I.D.'s system for evaluating the impact of its population assistance. It found that "A.I.D.'s evaluations generally ask whether it is doing things well rather than whether it is doing the right things." In other words, we do not know if we are accomplishing what we want.

How do you measure the success of these programs, besides

simply being able to say that X number of contraceptives were delivered? How do we know if what we are doing is actually helping reduce population growth, and by how much?

MR. BISSELL: The GAO report does not adequately reflect the scope and complexity of the evaluation efforts in A.I.D.'s population program. Evaluations take place on two levels: periodic country program evaluations; and regular evaluation of all centrally-funded projects. The great majority of these evaluations do attempt to address the question of what A.I.D. should be doing, as well as what it is doing. We provided GAO with numerous examples of projects that were redirected in important ways based on evaluation findings and recommendations.

Measurement of population program success at A.I.D. goes far beyond the collection of statistics on contraceptive distribution. A.I.D. has supported the collection of household-level data through the Demographic and Health Surveys (DHS) and predecessor projects which yield nationally representative data on contraceptive prevalence, fertility, infant and child mortality and a rich variety of other data for policy and programmatic evaluation. Since the initiation of the World Fertility Survey (WFS) in 1972, some 134 national level surveys have been completed in 61 different countries.

We know of no other social science effort that even approaches the scope and comprehensiveness of A.I.D.'s demographic surveys. Most of what is known about recent fertility and family planning trends in the developing world is the direct result of A.I.D.-sponsored surveys.

GAO REPORT - RESPONSE TO REPORT

SENATOR LEAHY: In your prepared statement you say the GAO study "has had a positive impact on A.I.D.'s population program." You say "it has given us an opportunity to reassess our approach and our programs." You go on to say that "the A.I.D. population program remains highly focused, healthy, and effective." The GAO was quite critical of several aspects of your population program. Yet you sound completely satisfied with the way things are. What if anything have you learned from the GAO report? What if anything do you expect to do differently as a result of the GAO's findings?

MR. BISSELL: The GAO's emphasis on evaluation in their review has provided A.I.D. with further impetus to continue efforts that had already been initiated to improve the approach to evaluation.

A.I.D. recognizes the need to evaluate its program efforts more systematically and is in the process of creating an evaluation unit within its central Office of Population. Within that unit, as well as within the context of existing evaluation mechanisms, increased attention will be given to evaluation and the impact of A.I.D.'s programs, particularly at the country and program level. Even prior to the GAO study, the Agency's Center for Development Information and Evaluation (CDIE) had begun plans for impact evaluations in Kenya, Tunisia, Honduras, and the Philippines. In addition, A.I.D. will place greater emphasis on the effective use of rich sources of existing data such as the Demographic and Health Surveys and family planning service statistics.

Evaluation of programs is a complex process, but A.I.D. is committed to enhancing the quality of its evaluation efforts and to making sure population resources are effectively and efficiently achieving program goals.

FUTURE OF THE POPULATION PROGRAM

SENATOR LEAHY: You quote Administrator Roskens in your prepared statement. He said he wants to "increase the impact of the population program" and "hopes to have the resources to support it." Is this just rhetoric, or do you foresee a change in what we can expect from the Administration in the future?

MR. BISSELL: In his initial briefings with A.I.D., Administrator Roskens was made aware of the dramatic increases projected in the population of the developing world and concomitantly in the number of family planning users. The number of family planning users will more than double between 1985 and 2000, and there will be another 43 percent increase between 2000 and 2010.

In the face of such impressive increases, the Administrator of A.I.D. would clearly hope to marshall the necessary resources to support an expanded population program. However, population must compete with other sectors of development activity within the overall context of an Agency that as a whole faces funding constraints.

Under any funding level, A.I.D. continues to look for ways to increase efficiency and make the most effective use of resources. A.I.D. has pioneered activities in privatization of family planning services and has worked with private sector providers to increase the proportion of services financed by the private sector. Currently mechanisms are being explored such as debt conversions and mixed credits that will permit A.I.D. to maximize the resources it can purchase with its funds.

A.I.D. has collaborated with other donors on population projects to avoid duplication of resources. A.I.D. is also developing strategies aimed at increasing programmatic efficiency by analyzing the respective strengths of the service delivery cooperating agencies to determine where each agency's comparative advantage lies and how A.I.D. should program its resources to best exploit these advantages.

FAMILY PLANNING SERVICES

SENATOR LEAHY: In your prepared statement you say "the best way to lower population growth rates is to increase the use of family planning services; therefore A.I.D's population program has emphasized these services." How much of the fiscal year 1990 budget will go directly to delivering family planning services? How much of the fiscal year 1991 budget do you plan to spend on these services? Do you expect any decrease in funding for family planning services in the foreseeable future?

MR. BISSELL: In FY 1990 A.I.D will obligate about $214 million for family planning services, including contraceptives. Nearly half of these are central funds. The remainder comes from bilateral and some regional programs, including the Development Fund for Africa (DFA).

For FY 1991, support for service delivery will remain at approximately the same levels, reflecting a sustained commitment to family planning services.

AFRICA

SENATOR LEAHY: According to information I received from A.I.D., the total amount budgeted for population control in Africa

in fiscal year 1990 is $2.6 million in Kenya. Is that correct? Why so little in a region where population growth is the fastest and there are so many women who want contraceptives and cannot get them?

What about Nigeria, where the population today is 105 million. The UN says if things continue as they are in 35 years Nigeria will have 300 million.

Or Zaire, with 33 million. In 35 years the UN says it will have 99 million.

Or Uganda, with 17 million. In 35 years it is projected to have 55 million.

Why do we have no programs in those countries?

MR. BISSELL: The $2.6 million planned for Kenya is under the project for private provision of social services. However, the bulk of our Fiscal Year 1990 program for Kenya is under other projects which amount to $9.6 million, or a total of $12.2 million for that country.

Africa is a high priority area for A.I.D. in population. In FY 1990, A.I.D. will obligate close to $75,000,000 for population programs in Africa. Of this figure, almost $41,000,000 comes from the Development Fund for Africa (DFA), and approximately $34,000,000 is from the Population Account, through the central Office of Population.

For the other countries you cited, we plan to obligate: $9.8 million to Nigeria; $4.0 million to Zaire; $3.9 million to Uganda.

INDIA

SENATOR LEAHY: In India, with 800 million people, you plan to spend a mere $1.4 million this year. Why so little in a country where if things continue as they are India's population will catch up with China's by the year 2025?

MR. BISSELL: Our assistance in population and family planning is more extensive than the figures you give. While A.I.D. will obligate $1.47 million for private sector family planning initiatives during this fiscal year, we expect an additional expenditure of $1.5 million from our central Office of Population as well as an additional $6.8 million through other projects related to family planning. These range from support to grass-roots non-governmental family planning organizations to activities on contraceptive research, and to a major and highly successful family planning communications and marketing initiative. In addition, the A.I.D. Mission continues to provide support to programs which promote child survival, child spacing, and breast-feeding, all of which constitute important contributions to the effort to reduce fertility in India.

ROMANIA

SENATOR LEAHY: We have all heard the horror stories about life in Romania under Ceausescu and how women were denied access to family planning. Hundreds of women died from clandestine abortions. What plans do you have to support family planning in Romania?

MR. BISSELL: A.I.D. is not currently planning to support family planning programs in Romania. However, if funding were

available, family planning could be most effectively provided through NGOs such as the Association for Voluntary Surgical Contraception, Johns Hopkins University's Program for International Education in Gynecology and Obstetrics, Pathfinder, Family Health International, and the Center for Development and Population Activities (CEDPA).

A.I.D. will continue to monitor the situation in Romania and consult with other donors on their plans in order to determine the most effective ways in which A.I.D. might be of assistance.

COST OF POPULATION CONTROL

SENATOR LEAHY: The Population Crisis Committee says we and other countries are spending $3.2 billion annually on population programs, and that in order to hold the population at 9.3 billion we would have to be spending $10.5 billion by the year 2000. Does that sound right? If not, how much do you think it would cost?

MR. BISSELL: Given increasing populations and rising levels of family planning use in developing countries, more resources will be needed for family planning service delivery -- more or less at the magnitudes presented by the Population Crisis Committee. In the mid-1980s A.I.D. and other donors provided roughly one-third of the resources for family planning in the developing world. The remaining two-thirds were provided by developing country governments and private sector programs. Given the costs of meeting growing demand, it is clear that donors cannot solve this problem alone.

To help address this shortfall, A.I.D. has taken several approaches:

a. A.I.D. has been at the forefront in convincing developing country governments to invest in family planning programs.
b. We have been a leader in stimulating the private sector to expand its role in delivering services.
c. We have assisted individual programs in becoming more efficient in delivering services and in instituting cost-recovery systems to help make programs more sustainable.
d. We have also worked to collaborate better and coordinate activities with other donors, helping both to mobilize resources and to create greater efficiency in population assistance efforts.

ADDITIONAL COMMITTEE QUESTIONS SUBMITTED TO SHARON CAMP AND LESTER R. BROWN

1. POPULATION GROWTH RATES

SENATOR LEAHY: Is there any chance we can hold the line at under 9.3 billion? Realistically, what is the best we can do?

What would it cost to reduce population growth rates enough for the world's population to level off at 9.3 billion?

How would these funds be spent? What needs are not being met?

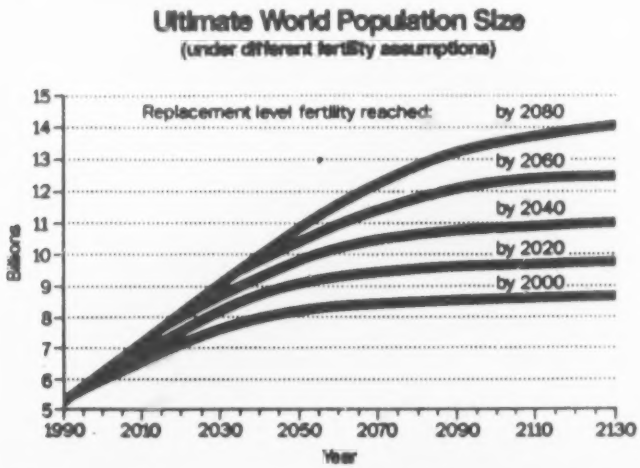
Does the infrastructure exist in the developing countries to absorb all that money without a lot of waste?

Do those governments want to reduce population growth? What about a Muslim country like Pakistan, or a Catholic country like Mexico?

What is the likely result if we and other donor countries continue business as usual?

The US already spends far more on population control than any other country. Why should we do more?

DR. CAMP: The ultimate size of a stable world population is largely determined by how quickly the world can reach replacement level fertility -- or in layman's terms, a two-child family average. For example, if a two-child family average could be reached by the end of this decade, in the year 2000, world population could be stabilized by the end of the next century at just under 9 billion. If a two-child family average is not reached until 2080, however, world population would grow to between 14 and 15 billion. The difference between these two scenarios is, of course, equal to the total current world population.



The first scenario is probably not feasible, although it is perhaps still possible to come close. Given the world's current mix of contraceptive methods and current use of legal and illegal abortion, 75 percent of fertile-age couples would need to practice some form of family planning in order to reach a two-child family average. Current world use is estimated at 55 percent. Moreover, once this 75 percent level of family planning use is reached, it would take 10 to 15 additional years for average family size to fall to two children. Average family size is presently estimated at 3.5 for the world.

Based on these demographic parameters, the Population Crisis Committee has picked 9.3 billion as the best case scenario for a stable world population. The scenario assumes 75 percent of fertile-age couples will use family planning by the year 2000, a level which would require virtually universal access to affordable services and greatly stepped-up public education activities. By the year 2000, the annual cost of this level of use would peak at $10.5 billion, including expenditures by consumers.

Several factors could in theory alter this scenario to produce a lower stable world population:

a. Greater Reliance on Abortion: The demographic history of countries such as Japan suggests that widespread availability of safe techniques for early termination of unwanted pregnancies would bring birthrates down rapidly. Availability of a drug such as the new French micro-abortion pill, RU-486, would have considerable impact. Abortion is also one of the few reproductive health care services which can readily become self-sufficient in many developing country settings. Worldwide, the general trend has been to reduce restrictions on legal abortion. However, US policies in the 1980s tended to slow liberalizing trends in many aid-dependent countries, and in some cases to raise the level of controversy surrounding this often-emotional issue.

b. Increased Death Rates: Population growth rates would also decline more rapidly if death rates increased. Some biologists in fact expect malnutrition and disease to increase as population pressures on arable land increase and as more people are packed into unsanitary slum housing conditions. It is theorized, for example, that new endemic diseases will gain an easier foothold in large populations of urban poor. It should be noted, however, that the estimated one million Africans who perished in the 1984 drought represent less than 3 weeks of African population growth at the current rate. The levels of starvation and disease required to reduce population growth significantly are truly appalling and are properly not factored into plans for population stabilization.

c. A More Effective Contraceptive Mix: World population stabilization could be achieved with lower rates of overall family planning use, if all family planning users were highly effective. To improve efficacy, programs can: (1) shift couples from less to more effective methods (e.g. from natural family planning to pills or IUDs); (2) provide better counseling and follow-up to ensure that clients are satisfied with the method and using it correctly; (3) or introduce new methods which are easier or more attractive to use.

All these avenues to a more effective contraceptive mix need to be pursued. Generally AID has encouraged programs to emphasize the most effective methods, although political pressure has occasionally pushed this effort off track as in the case of controversial grants to the religious-based Family of the Americas Foundation. The AIDS epidemic has also necessitated a shift toward greater condom promotion.

AID has also invested an appropriate proportion of available funds in research to improve existing methods or adapt them for developing countries, including introductory clinical trials to speed adoption of more effective technology. AID-supported research may also yield in the next several years one or more long-acting hormonal methods which would be inexpensive, easy to use and highly effective.

AID may need in the future to direct more applied research into studies on why large numbers of couples discontinue contraceptive use or fail to use contraceptives effectively. Improvements in user-effectiveness may be as important as adding new methods. Also needed is a stronger policy dialogue to convince countries to offer all the safe and effective methods available. Too many programs still offer a limited range of choices, despite overwhelming evidence that contraceptive prevalence increases with the number of contraceptive choices.

Only the last of these three possibilities offers realistic options for United States policy. It seems unlikely, however, that improvements in contraceptive user-effectiveness will change program costs dramatically over the next decade. On the other hand, the estimated $10.5 billion budget for developing country family planning is hardly exorbitant. It will require substantial increases in expenditures by developing country consumers and their governments. But they are already contributing 80 percent of what is currently spent. In Mexico, for example, consumers are spending over $50 million on family planning, with another $11 million from the national government budget and a mere $8.8 million from international donors.

The United States and other donors can and should do more. International population assistance of about $550 million a year represents only one percent of total official development assistance. Some countries, such as France, Italy and the USSR, provide virtually no support. Although the United States provides the largest share of population aid, on a per capita basis, Americans provide less than one-tenth what people in tiny Norway are providing. Six countries do better in this regard than the United States.

2. PROGRESS IN THE 1980s

SENATOR LEAHY: How would you rate the 1980s as far as what we accomplished in controlling population growth?

Is the lack of progress in reducing population growth rates due to a lack of resources, a lack of demand for contraceptives, or a lack of will by governments of the developing countries to solve this problem?

DR. CAMP: As the table below indicates, progress in family planning was noticeably faster in the 1970s than in the 1980s. Average family size dropped over 20 percent in the 1970s, compared to just 8 percent in the 1980s. Contraceptive prevalence rose 46 percent in the 1970s, but only 8 percent in the 1980s. Although several factors contributed to the slower progress in the 1980s, the inadequacy of financial support, especially from donor countries, was clearly a major one. Over the decade of the 1970s US foreign aid for family planning increased steadily. In the 1980s, funding has been erratic. Between 1985 and 1989 population aid obligations dropped some $60 million.

	1970	1980	1990
World Population (in billions)	3.632	4.414	5.317
Average Family Size Worldwide (in number of children)	4.8	3.8 (down 21%)	3.5 (down 8%)
World Contraceptive Use as Percent of Fertile-Age Couples	35	51 (up 46%)	55 (up 8%)
Number of Governments Subsidizing Family Planning	55	101 (up 84%)	130 (up 29%)
US Foreign Aid for Family Planning (in millions)	$74.6	185.0 (up 60%)	238.8 (up 29%)

In many developing countries, grassroots demand for fertility control is running well ahead of affordable family planning services. In some cases these trends appear to have precipitated an increased reliance on abortion, most typically in countries where access to safe abortion is highly restricted. There are few things which speak more compellingly of an unmet demand for family planning. AID's own recent surveys of a dozen Latin American and Asian countries indicate that 75 percent of adult women, on average, would like access to modern contraception to space or stop childbearing.

This growth in grassroots demand for fertility control is paralleled by increased support for population and family planning at the political level. Between 1970 and 1990 the number of governments worldwide providing budgetary support to programs rose from 55 to 130. Of the latter, 68 have specific policies to reduce population growth. However, as in the United States, birth control has powerful opponents in many developing countries, and the political will of many governments to back strong programs must be constantly bolstered by support from donor countries and the international community. The presence of the United Nations Population Fund as a legitimizer of national population efforts is particularly important. So is unambivalent support for family planning by the US government. It is in this light that the impact of US population policy changes in the mid-1980s should be understood.

3. PRIVATE SECTOR INVOLVEMENT

SENATOR LEAHY: Mr. Bissell mentions in his prepared statement that the demand for family planning services in developing countries will increase by 75 percent by the year 2000, and by another 50 percent by 2010. He says that to meet this demand, AID will focus on getting the private sector to spend more, getting other donors to increase their support for contraceptives, and helping the developing countries become more self-sufficient.

What do you think about this approach? Will it be enough to meet the demand?

DR. CAMP: Not unless these most useful developments are also accompanied by major increases in US financial support. Unless the United States provides at least a quarter of the family planning funds needed from donors -- some $4 billion in the year 2000 by POC estimates -- it will be virtually impossible to raise appropriate sums from other donors and from developing country national budgets. Funding from most other donors has been increasing, if much too slowly. It is US assistance which has been declining in recent years.

A number of governments in Asia and Latin America are meeting most of the cost of subsidized family planning programs, and consumer expenditures for full priced and partially subsidized services in the private sector are increasing. However, even in the United States an estimated 38 percent of adult women need help in meeting the full cost of family planning services. In most of Africa and in individual very poor countries in other regions, attempts to make programs very self-sufficient will serve mainly to keep them inaccessible to the poor majority or to lower their quality to the point where acceptability, efficacy and safety are put at risk. For example, over-the-counter sales of birth control pills in some Latin American countries have been associated with high discontinuation and pregnancy rates because customers never received adequate counseling on how to use the pills or what minor side effects to expect. Good quality family planning programs cost so little relative to other programs, there is no reason to attempt population stabilization "on the cheap."

4. AID'S POLICY GOALS

SENATOR LEAHY: According to the GAO, since the mid-1980s AID has no longer had as a goal reducing population growth. Do you agree with this assessment? In your view, what has been the effect of this change of policy?

How well, in your opinion, is AID allocating its resources? What are the problems?

DR. CAMP: In the early 1980s the longstanding economic and national security rationales for population assistance were challenged by a set of neo-conservative theories which came to be called "supply-side demographics." These theories received considerable play in the White House and were subsequently reflected in the White House-drafted US population policy statement for the 1984 world population conference in Mexico City. The theories argue that rapid population growth has no effect, or perhaps a positive effect, on economic development as long as economies are market-oriented.

Although AID officials initially attempted to restate the traditional economic rationale in a 1982 US Population Assistance Policy, by 1984 they had retreated to a narrower but politically safer set of justifications based on family planning's contribution to family health and the need to reduce abortion. The goal of population stabilization was lost with the loss of the broader rationale. I believe the change had two results. First, it helped to undermine further the once-strong support for population stabilization by moderate to conservative policymakers. A broad spectrum of political support -- an agreement on means if not on ends -- has been essential to a strong public commitment to population and family planning programs. The health rationale is important but not sufficient. Abandonment of the economic and security rationales by the United States government has made population aid programs more vulnerable to political attack and has made bipartisan cooperation more difficult when controversies arise.

The absence of any clear commitment to population stabilization may also have caused AID to lose its way with respect to country allocations of population assistance. As the table below shows, AID expenditures bear very little relationship to world demographic problems. Only in Bangladesh are allocations somewhat commensurate with need. For example, together India and China account for more births annually than the next 20 most demographically significant countries put together. AID's program in India is so small as to be almost irrelevant in India's overall effort. AID funds may not be spent on population programs in China and it appears to be US policy to prevent assistance to the China program through other channels.

Moreover, since the allocations listed in the table were made the Asia Near East Bureau of AID has made a deliberate effort to cut funding for population programs throughout that region -- even though this is where population pressures are greatest. In Bangladesh, a team sent from Washington is rumored to have cut more than $30 million from multi-year population funding; in Thailand, a similar team has recommended against any new starts in health and population. In Turkey a Washington-ordered review recommends cutting population programs from $3 million annually to $500,000 over the next five years. The program in Egypt is similarly threatened by proposals to turn all assistance into cash transfers. Directives from Washington, not the needs of the field, are generating these attempted reductions in population assistance.

AID continues, on the other hand, to allocate large amounts of population funds to somewhat less demographically salient countries such as the Philippines and Pakistan, where progress in family planning is also unlikely in the immediate future, but where short-term foreign policy interests require high aid levels. Scarce US population aid should be directed principally to those countries where it will help bring about birthrate declines most cost-effectively in the shortest amount of time.

Annual Births and Annual A.I.D. Population Assistance for Select Countries, 1989

Country	Births (In Millions)	A.I.D. Population Funding (In Thousands of Dollars)
India	27.474	8,008
China	23.474	0
Nigeria	6.018	8,326
Pakistan	5.540	6,605
Bangladesh	5.032	27,099
Indonesia	4.759	9,929
Brazil	4.123	7,609
Mexico	2.486	8,962
Iran	2.363	0
Ethiopia	2.326	0
Vietnam	2.157	0
Philippines	2.010	5,506
Egypt	1.772	16,240

Country	Births (In Millions)	A.I.D. Population Funding (In Thousands of Dollars)
Zaire	1.748	2,025
Turkey	1.546	1,430
Tanzania	1.493	664
Kenya	1.421	12,691
Burma/ Myanmar	1.304	3
Sudan	1.175	603
Thailand	1.155	4,212
South Africa	1.112	0
Afghanistan	1.036	6,418
Uganda	.995	1,897
Algeria	.993	18
Colombia	.890	3,898
Morocco	.847	5,162

Source: United Nations, *World Population Prospects, 1988* and U.S. Agency for International Development

5. CHILDREN PER FAMILY

SENATOR LEAHY: Mr. Bissell notes in his prepared statement that in the 28 countries that have received AID population assistance, the average number of children per family has dropped from 6.1 in the 1960s to 4.5 today.

Do we know how much of that was due to AID's efforts, and how much was due to the other donors or the countries themselves?

That drop from 6.1 to 4.5 children per family happened over about 20 years. It is about half-way to the goal of 2 children per family.

Assuming we keep up the same amount of assistance, can we expect to see a similar drop in the next 20 years? In other words, will it take about the same amount of assistance to get to the goal of 2 children per family in the next 20 years?

How much will it cost to get there, and in how many years?

DR. CAMP: AID deserves substantial credit for the fertility declines which have occurred in most aid-recipient countries, especially those which

occurred in the 1960s and 1970s, when AID funds represented a much larger share of developing countries' family planning expenditures than in recent years. It should be noted that AID has provided more than money. Much of the world's technical expertise in service delivery, information, training, operations research and contraceptive technology resides in AID and its 30-some US-based cooperating agencies. Without this American know-how, family planning programs around the world would be far less effective. Inexpensive supplies of high-quality US-made contraceptives have also been critical to program success.

The growing body of family planning expertise and its dissemination is reason to be optimistic about the speed of future progress in family planning, provided that financial resources increase sufficiently to meet the growth in demand for fertility control and the growth in numbers of reproductive-age couples (18 million a year in developing countries). It should be noted that US population assistance, figured in inflation-adjusted dollars per fertile-age couple, is substantially less than the US provided in 1972, when population aid first became a line-item in AID's budget.

There are those who will argue that reducing average fertility from four to two children will be more difficult than was reducing fertility from six to four children. Indeed, some programs are already seen to have "plateaued" at levels of contraceptive use far below that needed for a two-child family average. However, close observation of these stalled programs shows that they have failed to offer broad access to a full range of safe and effective birth control options in convenient settings with good counseling and medical follow-up. Most have failed to use mass communications effectively to promote responsible parenthood. Countries which are now approaching 75 percent contraceptive prevalence have invested heavily in such direct measures (e.g. China, Costa Rica, Thailand, Colombia and Sri Lanka.) Obviously these measures will succeed most rapidly in countries where women's access to education and employment is expanding and where low-income households have some hope of a better life.

With an enormous effort to ensure universal access to good-quality family planning services by the end of this decade, it is conceivable that a worldwide two-child family average could be reached in 25 years, by 2015. This would mean a fertility decline of 1.5 children from today's 3.5-child family average. In the 25 years between the beginning of AID support for family planning in 1965 to the present, a comparable decline of 1.5 children occurred, from a fertility rate of 5 to 3.5 children. While it may be inherently more difficult to get from 3.5 to 2, today's family planning efforts have a good deal more going for them. Contraceptives have improved thanks in part to AID support for biomedical research. Family planning services and information have become more "user-friendly", thanks in part to AID communications and operations research. Sound policies and a variety of well-managed institutions are in place in a great many countries.

Programs around the world are still far from perfect and most countries will need better policies and better implementation. But we know after 25 years how to make family planning succeed in a broad range of settings in countries with different religions and cultures.

We also know approximately what good programs cost. On average $16.00 can provide high-quality contraceptives, counseling and follow-up for one couple for one year, along with the personnel training and research support needed to expand and improve services.

A global budget of between $9 and $11 billion in constant dollars would be adequate to provide the needed resources for universal family planning availability in the year 2000. An additional $2 billion is needed immediately to meet expressed unmet demand for family planning among a smaller number of fertile-age couples.

6. EMPHASIS OF AID'S PROGRAM

SENATOR LEAHY: Mr. Bissell says in his prepared statement that "AID is the world's major supplier of contraceptives." Should AID continue to give

such emphasis to this part of its program, or should other donors do more of the supplying of contraceptives?

DR. CAMP: A reliable source of good-quality contraceptives is the single most important element in a family planning program. Since contraceptive drugs and devices are used by healthy people over long periods, they must meet higher standards than many other medical products. With some exceptions American companies produce the highest quality contraceptives at low cost. AID's central contraceptive procurement program buys a year's supply of US-made contraceptive pills for less than $2.00, for example. AID programs also have the best track record by far in the logistics of contraceptive supply to programs.

For all these reasons AID must continue to give strong emphasis to contraceptive procurement and must encourage other donors to develop comparable capacity to meet sky-rocketing demand.

CUTTING POPULATION GROWTH IN HALF

SENATOR LEAHY:

In your prepared statement you say "a global effort to cut world population growth in half by the year 2000 does not seem out of the question."

How do you propose we do that?

How would you rate the provision of contraceptives in terms of return on investment in reducing poverty in the developing countries? In other words, are there other things we should be spending our money on first?

MR. BROWN:

Regarding Senator Leahy's question on cutting population growth in half:

Obviously, there are no easy answers to a problem as large as world population growth. Keeping this in mind, there are four steps that we think would significantly lower fertility rates.

The first is to fill the existing demand for contraceptives and family planning services. According to data from the World Fertility Survey, 40-50 percent of the women of reproductive age in 18 developing countries desire no more children but have no access to family planning. Fertility rates could be reduced by 30 percent in these countries if this need was met. Resources dedicated to providing contraceptives and family planning services would have by far the highest and fastest return of any program designed to improve human welfare.

The second step to take is to educate national populations on the consequences of continued population growth. Parents will make better informed family planning decisions if they understand the conditions in which their children will live if current fertility rates continue. Political leaders, from Senators to the General Secretary of the United Nations, can contribute significantly to this education process by making frequent and strong public statements in support of a global goal of no more than two surviving children per family.

Third, countries can incorporate the two-child family into their public policy by developing a system of incentives and disincentives which support this goal. One example would be limiting to two the number of deductions a family can take on income taxes. Education programs and calls by political leaders to reduce families size will not be as effective if some branches of government continue to encourage larger families.

Fourth, countries can work to create social conditions conducive to smaller families. This step is the most sweeping change needed to slow population growth. Reduced family size has been shown to be linked to literacy, education, employment opportunities, economic and social equality, and particularly the status of women. Efforts to improve the lives of poverty stricken people will aid in effort to reduce population growth.

Improved social conditions, national policy changes, population and ecological education, and above all, meeting the existing demand for contraceptives will put us on track to reducing population growth and stabilizing world population.

POPULATION FUNDING

SENATOR LEAHY:

Assuming we and the other countries continue at about the same level of funding, at least in real terms, for the next decade, what impact would that have on reducing population growth? Will it be enough to hold the line at 9 or 10 billion?

Obviously, this is not a problem we can solve by ourselves. But we need to know how we can do better. Besides too few resources, what are the other major deficiencies with the US population program? Are we spending our money on the right things? What specific recommendations do you have for changing the way we are dealing with this problem?

What about other countries? What else should they be doing?

MR. BROWN:

Regarding Senator Leahy's question on population funding:

Considering the global environmental indicators, I do not think the world can sustainably support more than 8 billion people without a significant deterioration in living conditions and a corresponding rise in mortality rates in many Third World countries. Either population growth will slow because we begin to dedicate serious resource to the steps outlined above, or we will have waited too long.

ENVIRONMENTAL CONSEQUENCES

SENATOR LEAHY:

Let us assume the world's population doubles to 10 billion before it stabilizes some time in the next century. First, is that a fair assumption? Can we predict what the environmental consequences of that would be? What if it does not level off until 14 billion, as some have predicted?

Is there any consensus among the experts on the "carrying capacity" for the Earth? Is there a point at which the number of people who are being born equals or exceeds the number dying from famine and disease caused by over-population?

Asked another way, can we develop the technology to control pollution and feed ourselves regardless of the number of people? What if we solve the global warming problem? Or is there a point of diminishing returns, when the Earth's resources simply cannot sustain any more people no matter how sophisticated the technology, no matter how many bushels of grain we can grow per acre? How close to that point are we?

What about 10 billion or 14 billion people? What would that mean in terms of food security? Will the world be able to feed itself and have enough reserves to avoid massive famine?

What about the degradation of cropland? Of grazing land? Of irrigated land? Of forests? Can the world sustain 10 - 14 billion people and still preserve these resources?

MR. BROWN:

Regarding Senator Leahy's question on environmental consequences:

There is no historical precedent for adding 90 million people per year to the planet, and no one knows what the effects will be. What we do know is that the population increases since the mid-century have pushed almost every Third World country to the brink of ecological disaster. In temporary situations, such as China in 1958-59, famine has resulted in death rates higher than births. Malnutrition is documented to be on the rise in Burma, Burundi, The Gambia, Guinea-Bissau, Jamaica, Niger, Nigeria, Paraguay, the Philippines, Nicaragua, El Salvador, and Peru, and is undoubtedly increasing elsewhere as well, particularly among the poor.

The World Bank reports that from 1979 to 1983 life expectancy fell in nine African countries, and that more than 100 million Africans lack sufficient food to sustain themselves. In Zambia, twice as many children died from malnutrition in 1984 as in 1980. The infant mortality rate in Brazil rose in 1983 and 1984 for the first time in decades, and rose most steeply in the country's poorest regions. Similar trends exist in much of the Third World, leading UNICEF to conclude in its 1989 annual report that "at least half a million young children have died in the last twelve months as a result of the slowing down of progress in the developing world." These indicators lead us to believe that if world population growth stays on the current trajectory, headed for over 11 people, that death rates will rise bringing it to a halt well before that level is reached.

URBANIZATION

SENATOR LEAHY:

What about urbanization? By the year 2000 Mexico City will have 25 million people. Tokyo, 20 million. Calcutta and Bombay, 16 million each. What will be the long-term environmental effects of this shift of population to the cities?

MR. BROWN:

Regarding Senator Leahy's question on urbanization:

Accelerated urbanization has spurred the concentration of political power within Third World cities, leading to policies that favor urban over rural areas. It is not uncommon for developing countries with 70 percent of the their populations in rural areas to allocate only 20 percent of their budgets to the rural sector. Subsidies and overvalued exchange rates often make food and other basic goods cheaper in the city, discouraging agricultural investment and pulling people into urban areas. The resultant drain of capital and labor from the agricultural sector has undermined its ability to feed the local city population. Past urban development has been the product of agricultural success. By contrast, today's trends in part reflect agricultural failure.

Urbanization has been closely tied to fossil fuel use, first coal, and now oil. In comparison with their rural counterparts, urban dwellers require more energy to meet waste disposal, water supply, and food needs. Rising oil prices have forced literally hundreds of Third World cities to turn to the surrounding countryside for firewood, devastating forests in ever widening circles, particularly in Africa and the Indian Subcontinent.

Air and water pollution are pervasive problems in Third World cities. Little systematic effort has been made to measure most pollutants, but researchers have documented high rates of respiratory disease in Calcutta and lung cancer in China, both related to heavy air pollution. Water pollution may be even worse because of the lack of sufficient waste treatment facilities to serve the growing populations. Raw sewage is dumped into rivers, and water supplies are often contaminated with water-borne diseases, as well as heavy metals and other toxic contaminants.

The signs of urban stress now apparent throughout the world are calling into question the continued expansion of cities, particularly the larger ones. Mounting external debts are forcing national governments to scale back investments in urban areas and to reorder economic priorities. The transition that is slowly getting under way from fossil fuels to renewable energy sources--hydropower, biomass, and solar collectors to name a few--will further redefine the optimal balance between urban and rural populations. There is no guarantee that vast cities with tens of millions of people can be sustained or should be sustained if doing so requires heavy subsidies from the countryside. Although the age of renewable energy is only beginning to unfold, both the ecology and the economics of a world economy based largely on these energy sources suggest that the future may favor smaller cities.

[CLERK'S NOTE.—Additional material was received by the subcommittee subsequent to conclusion of the hearing. The statement will be inserted in the record at this point.]

STATEMENT OF THE AMERICAN INSTITUTE OF BIOLOGICAL SCIENCES

Human Population Growth

The American Institute of Biological Sciences (AIBS), a nonprofit organization representing over 70,000 professional biologists, appreciates the opportunity to comment on the consequences of human population growth. One of the directives of AIBS is to "further the advancement of the biological sciences and their application to human welfare and to foster and encourage research and education in the biological, medical, environmental, and agricultural sciences." Such a broad, scientific mandate allows AIBS to present a unique view on the consequences of human populations on ecological systems and the environment in general.

We are all aware of the environmental problems facing the planet: global warming, loss of biodiversity, groundwater contamination, depletion of nonrenewable resources, deforestation, stratospheric ozone depletion, and so on. What is not immediately apparent, however, is that a root cause of most environmental problems can be accurately attributed to human population pressures. Losing sight of the inverse relationship between environmental quality and human population growth was an unfortunate result of the elevation of family planning to the status of a major ideological issue in the 1980s.

AIBS President Paul R. Ehrlich, one of the nation's foremost authorities on human population growth, recently presented the difficulty in awakening the general public to the problem:

> One of the toughest things for a population biologist to reconcile is the contrast between his or her recognition that civilization is in imminent serious jeopardy and the modest level of concern that population issues generate among the public and even among elected officials. Much of the reason for this discrepancy lies in the slow development of the problem. People aren't scared because they evolved biologically and culturally to respond to short-term "fires" and to tune out long-term "trends" ....

In view of this complacency, AIBS is especially pleased that the Senate Appropriations Subcommittee on Foreign Operations has taken the time to consider the effects of continued population growth. Chairman Leahy's continuing leadership in this area is highly appreciated by the life science community.

AIBS and the Smithsonian Institution recently sponsored a symposium on population and scarcity. Distinguished speakers from the disciplines of economics, agriculture, and the biological sciences presented clear evidence of the current strain placed on the earth's ecological balances by an accelerating human population. One of the primary messages which emerged from this event was the idea that human population growth is not simply an ideological issue, but that it is increasingly a matter of the survival of our civilization. Biologists have long recognized the importance of ecological systems, of which other organisms are crucial working parts, in maintaining the human economy. This symposium brought to light the urgency of addressing the population problem in order to avoid a catastrophic deterioration of our life-support systems.

Since 1968, the year the general public was widely alerted to the human "population bomb," over 200 million people - mostly children in developing countries - have died from hunger and hunger-related diseases. These deaths occured despite implementation of green revolution farming techniques in those countries. And since 1968, the world has lost hundreds of billions of tons of topsoil, hundreds of trillions of gallons of groundwater, and thousands of species and millions of genetically distinct populations of other organisms (biodiversity). To the non-scientist, these trends clearly indicate a collision between diminishing resources and increasing human population. To the scientist, and especially to the population biologist, that collision represents a clear threat to us and our ascendants. The only unknown element is when this will be apparent to everyone.

Ecosystem health is irreversibly affected by many human activities. As forests are destroyed for cropland, fuelwood, ranching, and timber harvesting, the ecological consequences include loss of biological diversity, mass extinctions of species, decline in the dependability of freshwater flows, and destabilization of regional climates. In addition, human actions are starting to cause major atmospheric changes (global warming, acid precipitation, and stratospheric ozone depletion) which could radically alter the biosphere of the planet. Effects such these are individually threatening. When considered in tandem, these effects are likely to be devastating.

Environmental issues will dominate global political agendas for the foreseeable future. AIBS urges that resolving an ultimate cause of most environmental problems, human overpopulation and rapid population growth, merits the highest priority.

SUBCOMMITTEE RECESS

Senator MIKULSKI. The subcommittee will stand in recess until 2 p.m., on Tuesday, May 22, when we will meet to hear from the Agency for International Development on the United States and global environment—the role of foreign assistance.

[Whereupon, at 3:45 p.m., Tuesday, May 15, the subcommittee was recessed to reconvene at 2 p.m., Tuesday, May 22.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

TUESDAY, MAY 22, 1990

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:13 p.m., in room SD-138, Dirksen Senate Office Building, Hon. Patrick Leahy (chairman) presiding.

Present: Senators Leahy, Lautenberg, and Kasten.

AGENCY FOR INTERNATIONAL DEVELOPMENT

BUREAU FOR SCIENCE AND TECHNOLOGY

STATEMENTS OF:

RICHARD E. BISSELL, ASSISTANT ADMINISTRATOR

GLENN T. PRICKETT, RESEARCH ASSOCIATE, NATURAL RESOURCE DEFENSE COUNCIL

BRENT BLACKWELDER, VICE PRESIDENT FOR POLICY, FRIENDS OF THE EARTH

OPENING REMARKS OF SENATOR LEAHY

Senator LEAHY. The hearing this afternoon concerns the global environment. Mr. Bissell, who probably feels as though he is taking up residency over here, we welcome you back.

After he finishes his statement, I will invite Mr. Prickett and Dr. Blackwelder to join him and give theirs. Then we will open up to questions.

One of the reasons I was anxious to have this hearing is because of the way this subject affects all of us. The destruction of tropical forests affects the air we breath; it affects the land that sustains us. The depletion of the ozone layer and the rise in atmospheric temperature from the burning of fossil fuels are dangers to everyone on this planet.

I am afraid the administration is marking time with requests for studies rather than action despite the growing threat to the world's ecology. The administration has refused to participate with other developed nations to help impoverished Third World countries reduce the emission of ozone-depleting chlorofluorocarbons [CFC].

I think that is a great mistake. Because what it means is that the United States retreats from a position of world leadership in environmental concerns. We are becoming defensive in our re-

sponse to international pollution of air and water because of economic and, I might say, because of political pressures and the specious counterclaims of some who reject all scientific theory, apparently from evolution to surviving a nuclear war.

The United States was asked to contribute $25 million over 3 years to help poor countries reduce CFC emissions in compliance with the Montreal Protocol; $8 million a year in a $15 billion foreign aid budget for such a worthy purpose is well worth it. The administration has no problem for asking for 1,000 times that amount for security assistance, but it balks at one-thousandth of the money for our security assistance to prevent the Montreal protocol from becoming a dead letter for the developing nations.

I will make my position very clear. I will include the money for a U.S. contribution to the special compliance fund of the Montreal Protocol in the 1991 Foreign Operations bill because controlling and reducing chlorofluorocarbon damage to the ozone shield is critical.

The environmental President has to make up his mind whether he places the Montreal Protocol above his chief aide's determination to protect political and economic special interests that have eroded the initial, and I might say very good, environmental intentions of President Bush. I would hope that the President would go with his instincts on this and let his chief aide make speeches.

This subcommittee wants to do something about global warming. There has been enough studying to convince us that this is a priority to be delayed no longer. Last year, with Senator Kasten's very strong support, I included a global warming initiative in the Foreign Operations bill. We added $15 million to fund new environmental programs at AID. This legislation requires AID to focus its energy in forestry efforts in key developing countries like Brazil, India, and Mexico, where major global warming problems arise. It directs the Treasury Department to apply pressure to the World Bank and other international financial institutions for increased energy and forestry conservation.

I believe the World Bank has exacerbated the problem by funding projects which damage the environment and contribute to global warming and AID has not yet given these problems the attention they deserve. Frankly, I wonder whether the global warming initiative is being fully implemented by AID.

Now, there are skeptics in the administration who believe that we are not serious about this, and time is on their side. They think they can wait us out here in the Congress. Well, I would hope that the witnesses from the administration and others with them will take back from today's hearing the knowledge that this committee is committed to the global warming initiative.

There will be money for AID's global warming programs again in this year's foreign aid bill; there will be more. If there are problems, well, let us deal with them here. If the initiative needs revision, let us hear what those revisions should be so we can make them. Our aim is to help AID provide critical leadership in dealing with greenhouse gases and the global warming threat. I think it is very clear that there is a bipartisan consensus in this subcommittee to do more than we have done and to keep the pressure on, not to do it one year, forget about it, and move to something else.

So we are going to first hear from AID Assistant Administrator, Richard Bissell, and then from Glenn Prickett from the Natural Resources Defense Council and Brent Blackwelder from the Friends of the Earth.

And as I said, Mr. Bissell, it is always good to have you back and we will try to find at least one day that you can go back to your own office and not be here.

SUMMARY STATEMENT

Mr. BISSELL. Thank you, Mr. Chairman. I have submitted a written statement. I would appreciate it being included in the record.

Senator LEAHY. It will be.

Mr. BISSELL. I also appreciate your comments of strong support for increased activity at AID on global climate change issues. We happen to share your concerns and are moving expeditiously. I would like to use the opportunity of today's hearing to make clear our commitment to moving quickly and with increased coordination and resources in the directions that you have laid out.

At AID we recognize the serious threat to our planet resulting from environmental degradation, and we share your concern for the environment in developing countries in particular. We are strongly committed to integrating concern for the environment in everything that we do.

As evidence of that commitment, for instance, AID is aggressively applying its new authority to use program funds for hiring environment staff. We are taking steps to hire up to 20 environmental employees each year for the next 3 years, beginning this year. We are also committed to increasing the effectiveness of our program. We have recently developed a new initiative to focus our resources in areas where we will have the greatest beneficial impact on the environment.

Under this new initiative, all of our environmental activities will be based on three themes: (1) sound economic and environmental policies; (2) institutional development and management; and (3) technology generation and commercialization.

Within this framework, we plan to focus our resources in three categories: in economics and environmental policy; environmental education, training, and support for nongovernmental organizations; and a variety of technical interventions.

Beginning in fiscal year 1991 we are committed to spending 75 percent of all new environmental funds to support activities in these three focus areas.

Under the last category of technical interventions, each major program bureau in AID plans to develop three or four areas where their new environmental activities are to be concentrated. The environmental initiative will be finalized within a few weeks, when we would welcome the opportunity to brief you on the new focus.

In the context of this new focus, let me highlight two program areas of particular concern to the Agency: climate change and loss of biological diversity. AID's climate change activities support forest management, reforestation, renewable energy, and energy conservation. I have two charts on the right to illustrate our work in climate change. As you can see, AID plans to obligate $225 mil-

lion for these activities in fiscal year 1990, this year, and $249 million in fiscal year 1991. This is a substantial increase from fiscal year 1989 when we spent $185 million.

And let me assure you that the increased funding is not due to any kind of redefinition of our activities. The trend you see represents a serious commitment by AID at all levels to address the climate change issue.

To ensure that our expanding resources are wisely spent, we are developing a plan to focus climate change activities in key countries, as you suggested, Mr. Chairman, where we can make a significant difference. In the interest of time, I refer you to my written statement where I lay out a description of the specific activities that we plan to support.

I would like next to mention briefly biological diversity, which is a growing component of our environmental program. Again, my written statement describes in detail our biodiversity activities. What I would like to touch on here is the rationale behind our efforts to conserve diversity.

AID has supported, and will continue to support, the development and maintenance of park and protected areas to preserve critical habitats for threatened species. However, I also believe that the most important efforts to conserve biological diversity will take place outside the boundaries of protected areas. Parks are the critical core of conservation efforts, but they are simply not sufficient. Efforts to promote the sustainable use of resources will, in the long term, have as great an impact in conserving biodiversity as creating parks which exclude people from resources they believe are rightfully theirs.

PREPARED STATEMENT

Let me end this brief statement by underscoring our clear commitment to making environmental improvement the key objective of our development agenda. With limited funds and expanding responsibilities, AID must strategically focus its resources. Our new environmental initiative will help us accomplish this goal by focusing resources on local environmental problems with global implications in those countries where we can have the greatest impact.

Thank you, Mr. Chairman. I would be happy to answer any questions.

Senator LEAHY. Thank you very much, Mr. Bissell. I think we will hear testimony from our other witnesses and then proceed to questions.

[The statement follows:]

STATEMENT OF RICHARD E. BISSELL

Thank you Mr. Chairman. I appreciate the opportunity to testify before this subcommittee on the role of foreign assistance in addressing global environmental problems. Concern for the environment in developing and developed countries has grown dramatically in recent years as the global impact of local environmental degradation has become more evident. Depletion of stratospheric ozone, the potential for climate change, loss of biological diversity, and destruction of tropical rain forests all dramatically illustrate the complexity and urgency of protecting the environment.

Environmental Degradation and Constraints to Development

Although the long-term effects of environmental degradation are often global, the causes are local, as are the most immediate impacts. Rapid population growth, extreme poverty, inequitable access to land and other resources, rapid urbanization, and inadequate policies threaten to alter irreversibly the functioning of normal ecosystems.

World population is growing by over 80 million people each year, placing greater and greater stress on the environment. The human population doubled in the 100 years between 1850 and 1950 from 1.25 to 2.5 billion. Population doubled again in only 37 years between 1950 and 1987. Another billion will be added before the end of this decade. The United Nations medium projection for world population is more than 8 billion people by 2025, before stabilizing at about 10 billion toward the end of the next century. Clearly, more people require more food, energy, shelter, and clothing, all of which must be supplied from the planet's resources.

Tropical forests, primarily located in developing countries, once occupied 16 million square kilometers globally, but now cover only

9 million. Latin America and Asia have already lost 40% of their original forests, and Africa a little more than half. Direct costs of this deforestation are losses of forest products such as timber, fuelwood, fibers, canes, resins, oils, pharmaceuticals, fruits, spices, and animal hides. More than one billion people are affected by the soil erosion, loss of agricultural productivity, and flooding caused by deforestation, with significant social and economic consequences.

In addition to these immediate human impacts, deforestation also results in the destruction of habitat critical to biological diversity. While tropical rainforests cover only seven percent of the earth's surface, they contain at least one-half of all wildlife species. Deforestation is proceeding at a rate of 11 million hectares per year, resulting in species extinction at rates 100 to 1000 times greater than background extinction. At current rates of deforestation, roughly 5 to 10 percent of tropical forest species will become extinct per decade, averaging more than 100 species per day.

Loss of biodiversity limits the future availability of natural products for manufacturing and industry. Losses of genetic resources diminish the availability of new wild germplasm essential for breeding crop varieties with higher productivity and greater resistance to insects, disease, and adverse climate conditions. Loss of habitat critical to biodiversity threatens economically important environmental services such as the provision of clean water by watersheds, waste filtration and erosion protection by wetlands, and storm surge protection by mangrove forests and coral reefs. As with deforestation, the loss of biodiversity has significant direct and indirect effects on economies.

Habitat destruction is not limited to terrestrial ecosystems. Coral reefs, which rival tropical forests in productivity and diversity, are rapidly disappearing. Coral reef mining,

sedimentation resulting from mismanagement of upland areas, dredging, discharge of industrial pollution, dumping of domestic sewage, overexploitation of selected corals for ornamentation, and destructive fishing practices all destroy critical coral reef habitats and threaten biological diversity.

While acknowledging the limits of our ability to solve such complex and pervasive problems, A.I.D. is strongly committed to confronting these difficult issues and will continue to help developing countries conserve and protect their environment and natural resources. A.I.D. has long recognized the link between environmental protection, the management of natural resources and economic development. A.I.D. is joined by a growing number of individuals and institutions which accept that environmental protection is an integral and critical component of economic growth.

Economic assistance and environmental issues are directly linked because deteriorating environments affect economies, and failing economies accelerate environmental degradation. This complex interaction is seen most graphically in the developing world. In many of these countries, for example, agriculture, forestry, and fisheries contribute significantly to GNP, and each depends simultaneously on both the exploitation and conservation of natural resource. USAID's assistance program is designed to balance these competing needs to yield the greatest increase in social welfare by optimizing environmental improvement and income growth. Protection of the environment and environmentally sound management of exploited natural resources are critical to A.I.D.'s mandate to promote broad-based economic growth.

The recent events in Eastern Europe highlight the environmental consequences of failing economies. Equally important, these events demonstrate the importance of pluralism to rational management of

natural resources. The events in Eastern Europe can not be divorced from the tremendous environmental problems in those countries. High levels of pollution and the inability of the central governments to improve the environment surely were contributing factors to the mass dissatisfaction which eventually resulted in the popular uprisings.

Countries with centrally planned economies tend also to be the countries with the worst pollution. While environmental degradation in Eastern Europe is the result of complex factors developing over an extended period of time, one underlying cause is clear: misguided economic and regulatory policies. With centralized economies, the Eastern European nations could not harness the power of market forces or provide the social incentives necessary to reverse the extensive environmental damage caused over a 40 year period of misrule.

The use of market forces must be an increasingly important and integral component of A.I.D.'s environment program. Although a free and open market is certainly no cure for the environment, as Western development has demonstrated, economic incentives and rational economic policies which promote conservation are essential to achieving significant change in developing countries.

Market forces and economic instruments are critical to ensuring that those who bear the cost of conservation also receive the resulting stream of benefits. Inhabitants living in and around forests, wetlands, and coastal zones, who exercise the real power over the use of natural resources, should be provided incentives to manage these resources sustainably for their own benefit. Removing perverse incentives, which promote the destruction of natural resources, is equally important. Inappropriate land tenure and tax policies, for example, provide incentives which are known to contribute significantly to deforestation in the tropics.

To the extent that resource exploitation is governed by the perceived self-interest of various individuals or groups, behaviors affecting maintenance of natural resources can be changed through education and by providing new approaches to conservation which alter people's perception of what behavior is in their best interest. Since self-interest is defined primarily in economic terms, economic incentives are a useful tool in promoting conservation. Accordingly, environmental economics are becoming an increasingly important component of A.I.D.'s environment program. We recognize that this newly emerging discipline will need considerable investment to build U.S. capabilities. Economists experienced in this area will be in high demand and short supply.

A.I.D.'s New Environmental Initiative

This emphasis on environmental economics is reflected in A.I.D.'s new environment initiative, which has been developed to guide A.I.D.'s environmental assistance program to areas where it will have the greatest impact in a changing world.

Under the new initiative, all A.I.D.-supported environmental activities will be based on three themes: supporting sound economic and environmental policies; assisting human and institutional development; and promoting technology generation, transfer and commercialization.

Within this framework, A.I.D. will focus its resources in three categories: economics and environmental policy; environmental education, training, and support for non-governmental organizations; and technical interventions. These technical interventions will be tailored to the three or four principal environmental concerns within each of the geographic regions. Seventy-five percent of all new environmental funds, beginning in FY 1991, will support activities in these focus areas. The

environment initiative should be finalized within a few weeks, when we would welcome the opportunity to brief you on the elements of our new directions.

In the context of this new focus, let me now provide some examples of A.I.D.'s current environment activities, highlighting two program areas of particular concern to the Agency: climate change and loss of biological diversity.

A.I.D.'s Climate Change Program

A.I.D.'s efforts to address the problem of potential climate change are reflected in support for forest management, reforestation, renewable energy, and energy efficiency. A.I.D. plans to obligate $225 million in FY 1990 and $249 million in FY 1991 for these activities, up from $185 million in FY 1989. We have nearly completed a strategic plan that will provide guidance for focusing the Agency's resources related to climate change.

Under the plan, A.I.D. has tentatively identified the "key countries" which will be the focus of our climate change activities: Brazil, Mexico, Central America (considered as a single entity for these purposes), India, Indonesia, Pakistan, the Philippines, Poland, and Zaire. China, perhaps the most important key country, will not receive direct bilateral assistance from A.I.D., although other forms of assistance may be possible under appropriate circumstances.

Key countries were chosen on the basis of their current or predicted emissions of greenhouse gases as well as subjective criteria such as A.I.D.'s ability to influence change within the host country. A brief description of some of the activities we are supporting in these countries will illustrate that A.I.D. is moving rapidly to place climate change high on its environmental agenda.

For example, A.I.D. is currently designing a new program to assist Brazil in promoting sustainable forest management and sustainable resource use policies and energy efficiency improvements. A.I.D. will also provide an in-country forest policy/climate change adviser for the A.I.D. mission in Brasilia. Funding for this program in FY 1990 is expected to be on the order of $2 million.

In Mexico, A.I.D. will obligate about $1 million in FY 1990 for climate change activities, including public education; support for completing and implementing management plans for eight priority protected areas; and community development pilot projects in buffer zones to test sustainable forest-use technologies such as natural forest management and non-timber extractive industries. Another focus in Mexico will be training in energy efficiency and "clean" technologies.

In Indonesia, A.I.D. is developing a new $18.5 million Environment and Natural Resources project with a principal focus on forestry policy, including activities that demonstrate sustainable natural forest management. A.I.D. is partially funding investigations of biomass and solar energy conducted by Indonesia's national Energy Research Laboratory. We are investigating opportunities for co-generation and private power as well. A.I.D. is also collaborating with the Department of Commerce and the Export Council for Renewable Energy in sponsoring a mission to Indonesia to investigate opportunities for renewable energy applications in the industrial sector.

In Poland, A.I.D. is working with the Department of Energy to retrofit a coal power plant to reduce sulphur and nitrogen oxide emissions, and with EPA on an air monitoring system for Krakow. We are helping the Polish government to develop a national energy conservation policy, which is to be submitted in the near future to the Polish Parliament. We are also examining approaches to

energy efficiency as a component of our environmental strategy development for Eastern Europe, including collaboration with EPA on the development of the regional environmental center in Hungary. Energy, including efficiency mechanisms, is one of three key issues that the regional center will address in its first year of operation. A.I.D. is also promoting opportunities for U.S. trade and investment, including joint ventures between U.S. and Polish companies. Areas for private sector participation include: energy cogeneration and the manufacture of energy efficient systems; insulation; heating system controls; lighting; motor vehicles; and waste heat recovery.

Under the umbrella of the Multi-Agency Group on Power Sector Innovation, central programs support technical and institutional improvements in performance of diesel power plants worldwide. Central support for climate change activities also includes an energy efficiency and least-cost energy planning initiative in Central America and a Global Energy Efficiency Initiative to develop project concepts and initiatives on energy efficiency in key countries.

Energy efficiency and energy conservation are important elements in our climate change program, with obligations of $136 million in FY 1990 and $144 million in FY 1991. We are promoting the use of new, higher efficiency technologies, practices, and management strategies, including reliance on rational pricing and greater involvement of the private sector in all facets of energy production, distribution, and use. We have provided energy conservation services to more than 25 countries, emphasizing conservation and financing for its implementation, primarily in the industrial and electricity sectors, but also undertaking programs in the building and transportation sectors. For example, we are funding a $3 million "Energy Conservation Management" Project which focuses on energy conservation in buildings in the Asia/Near East region. In India, we are supporting research and rapid

commercialization of more efficient and renewable energy systems and have been joined by the World Bank in an assessment of the power sector.

Renewable energy sources offer an important alternative to fossil fuel use, which are a major source of greenhouse gas emissions. A.I.D. is supporting a variety of renewable energy projects in Egypt, India, Pakistan, and Morocco, each emphasizing in varying degrees wind, solar, photovoltaics, biomass, household fuels, and technology assessment. Our program focuses on developing sustainable, commercial projects encouraging increased involvement of the private sector and creation of appropriate policies. We have worked closely with the U.S. renewable energy industry and have accelerated our renewable energy training and information dissemination efforts.

A.I.D. is placing high priority on increasing in-house capacity to address the issues of climate change, resource degradation and energy, including hiring additional experts in these fields and expanding our training program in this area for A.I.D. technical and senior staff. We are also increasing our efforts to train individuals in host countries in many areas of the environment, including policy, technical interventions, economics, and management.

A.I.D.'s Biological Diversity Program

I would like next to describe our biological diversity conservation efforts, which are a growing component of our natural resource management portfolio. The challenge to A.I.D. is to protect and promote the sustainable use of threatened biological resources that provide the raw materials for economic growth in developing countries. In response to the accelerating threats to these resources, A.I.D. has expanded efforts to: 1) protect and maintain wildlife habitats, and develop sound wildlife management and plant

conservation programs; 2) establish and maintain wildlife sanctuaries, reserves, and parks; 3) identify, study, and inventory animal and plant species; 4) assist countries to enact and enforce anti-poaching measures; and 5) encourage private sector participation in commercially viable activities that promote natural resources conservation.

In addition to these activities focusing on habitat and species protection, A.I.D. supports environmental education, agroforestry for sustainable agriculture in buffer zones surrounding parks, and efforts to strengthen legislation, policies, and institutions relevant to biodiversity conservation. Total obligations for biodiversity are expected to be $42.9 million in FY 1990 and of similar magnitude in FY 1991. A.I.D.'s biodiversity program continues to grow as an integral component of our broader environmental efforts.

I believe that the most important efforts to conserve biological diversity will take place outside the boundaries of protected areas. Parks and protected areas clearly represent the critical core of biodiversity conservation efforts, but they are insufficient in themselves to conserve most biological resources. Efforts to promote the sustainable use of resources will, in the long-term, have a greater impact on conserving biodiversity than creating parks which exclude people from resources they believe are rightfully theirs. Changes in misguided tax policies and removing structural flaws in royalty and license fees could have a tremendous beneficial impact on biodiversity. For example, through inappropriate tax policies the Indonesian government has sacrificed nearly $3 billion in timber revenues in four years because the price of forest concessions does not reflect the true value of harvested timber. Timber companies do not pay the full social costs of timber production. Through policy reform, the Indonesian government could promote more rationale use of resources, support forest conservation, and generate billions of dollars in additional

revenues. Similar circumstances can be found in Brazil, Malaysia, Thailand, and the Philippines.

While these efforts are expanding, A.I.D. continues to support traditional biodiversity activities. A.I.D. is supporting the establishment of the Zubiya Wildlife Reserve in Jordan, the Hol Chan Marine Reserve in Belize, and the Maya Biosphere Reserve in Guatemala. We are assisting Nepal to improve the management of Chitwan, Mt. Everest, and Anapurna national parks. We are working with the Missouri Botanical Garden to establish a national park on Madagascar's Masoala Peninsula, and are helping to develop management plans for five protected areas in Burundi. A.I.D. has been joined by the World Bank and the Nature Conservancy to establish the Mbaracayu Nature Reserve in eastern Paraguay.

A.I.D. supports a substantial elephant conservation effort in Africa, with obligations of $12.5 million in FY 1990 and of similar magnitude in FY 1991. This includes elephant conservation activities in Cameroon, Tanzania, Zimbabwe, Zambia, Botswana, and Kenya.

A.I.D. continues to support resource assessments, critical to determining the extent and degree of threat to biodiversity. Through the African Natural Resources Management Support Project, assessments have been completed in Madagascar, Rwanda, Burundi, Uganda, Kenya, Botswana, Malawi, Niger, Mali, Gambia, and Senegal. Assessments are planned in 1990 for Tanzania, Ghana, Cameroon, and Zaire. In the Asia/Near East region, assessments have been completed in Tunisia, Egypt, Nepal, Sri Lanka, Thailand, Indonesia, Yemen, Bangladesh, the Philippines, and 10 South Pacific nations. Assessments are underway in Jordan and India, and are planned for Pakistan and Oman. In Latin America, all 19 A.I.D. missions have completed conservation needs assessments. These assessments are then used to identify opportunities for assistance by A.I.D. and other donors.

As funds for conservation and other environmental activities become tighter, creative means of supporting environmental protection are needed as we expand our environment program. One mechanism strongly supported by A.I.D. is the use of debt-for-nature swaps. In June 1988, A.I.D. contributed to a debt-for-nature swap in the Philippines which allowed the World Wildlife Fund and the Haribon Foundation to exchange up to $2 million of debt into pesos. As in other debt-for-nature swaps, A.I.D. provides assistance to an intermediary, generally one or more environmental NGOs, to support a program of conservation. The intermediary arranges for the purchase of commercial debt while the host country contributes to conservation by converting the debt to local currencies to support a number of previously agreed upon environmental activities. In this case, proceeds are being used to fund the protective management of two parks on the island of Palawan, which contains unique terrestrial and marine habitats. Late last year, A.I.D. supported the first debt-for-nature swap in Africa, granting $1 million to the World Wildlife Fund to purchase up to $2.1 million worth of commercial debt in Madagascar. We are working on a several similar agreement in Ecuador. In the Philippines another debt-for-nature swap is planned for up to $25 million, and includes the creation of an endowment fund to maintain resources for future conservation. A.I.D. is working to facilitate a debt-for-nature swap as a component of the plan to create the Mbaracayu Nature Reserve in Paraguay, mentioned earlier.

Also, as part of A.I.D.'s efforts to help developing countries define and implement appropriate environmental and economic policies, we are supporting efforts to improve national income accounting systems. National income accounts as currently calculated do not incorporate changes in the stock of biological resources or the cost of environmental degradation. A.I.D. recently provided support to the World Resources Institute to prepare a case study on the economic valuation of natural resources

for revising national income accounts in Costa Rica. Under contract with A.I.D., the London Environmental Economics Center is preparing a summary of current approaches to valuing nonmarket services and environmental assets, and examining their application to national income accounting. A.I.D., in collaboration with the World Bank and several private organizations, is sponsoring a conference on "Ecological Economics of Sustainability" on May 21-23, 1990 in Washington, D.C. A.I.D. is also providing technical assistance to the governments of the Philippines, Indonesia, Sri Lanka, and Thailand on the application of economic methodologies to address environmental degradation issues.

I have focused on climate change, biodiversity, and environmental economics to provide a broad framework for some of A.I.D.'s future emphases. However, A.I.D. continues to provide strong leadership in support of tropical forestry, forest management and reforestation, and supports measures to improve industrial and urban pollution control. We are in the process of engaging urban environmental problems more directly and are updating and expanding our pest management guidelines to help promote environmentally sound agriculture. The new pest management guidelines will emphasize integrated pest management as the primary means of pest control in A.I.D. funded activities.

Collaboration With Other Federal Agencies and Donors

Given the magnitude of the environmental problems we face, A.I.D. must recognize its limitations and design realistic approaches to resource conservation consistent with our mandate. This means leveraging resources through collaboration with other donors and other U.S. government agencies to enlist their support for environmentally sound development. A.I.D. provides the leadership in these collaborative efforts based on its extensive experience with environmental issues in developing countries. For example,

A.I.D. is working with EPA to increase cooperation and expand jointly funded activities. Through this effort we have identified five major areas of cooperation: environmental issues in Eastern Europe, climate change, pest management, training and institution building, and urban environmental problems. EPA and A.I.D. expect to announce a program of joint activities in the near future. The two agencies have already reached agreement on a number of specific projects. For example, we are jointly examining the effects of climate change on the production of key food crops; we are collaborating on an effort to examine sustainable agricultural technologies to help arrest deforestation. EPA and A.I.D. will jointly fund an effort by the Lawrence Berkeley Laboratory to identify realistic in-country strategies for reducing emission of greenhouse gases. The two agencies are also jointly funding an effort by the International Institute for Energy Conservation to assess urban transportation energy use in Asia. This will be followed by a regional workshop to discuss response options and to identify specific policy implementation opportunities. A.I.D. and EPA will also implement a comprehensive program on pest management for application on a pilot basis in Central America, concentrating on strengthening regulatory institutions, supporting food export programs, promoting pesticide management and safety training, and providing guidance on the disposal of obsolete pesticides and pesticide containers. EPA employees have been detailed to A.I.D. to assist us in the areas of pesticides and water pollution.

This collaboration with EPA provides an illustration of the type of on-going or planned initiatives that are bringing together A.I.D. and other U.S. Government agencies (Departments of Agriculture and Interior, NASA, Peace Corps) to address problems of mutual concern.

A.I.D., along with the Departments of State and Treasury, continues its efforts to improve the environmental performance of the

multilateral development banks. A.I.D.'s list of MDB projects with potential environmental problems is widely distributed within the United States and overseas. A.I.D. has assumed this role with the MDBs as the leader among donor agencies in ensuring that all of our development assistance activities are environmentally sound through appropriate environmental review. We are working closely with the Organization for Economic Cooperation and Development (OECD) to harmonize environmental practices among the major bilateral donors. In another example of bilateral cooperation, A.I.D. is helping to plan a $10 million forestry project in Indonesia for funding by Japan through the International Tropical Timber Organization.

A.I.D. Staffing

A.I.D. staffing has become an important concern as we accelerate our efforts to meet the demands of ever expanding environmental problems. A.I.D. is aggressively applying its new authority to use program funds for hiring environment staff by taking steps to hire and support up to 20 environmental employees each year for the next three years. However, A.I.D. could more vigorously implement the new authority if it were not limited to one year as part of the FY 1990 Appropriations Act. Under current circumstances, hiring staff with program funds would have significant operating expense implications if the authority were not annually renewed.

This overview illustrates our commitment to the environment, but also illuminates the serious problems which A.I.D. faces in promoting environmentally sound development. With limited funds and an expanding agenda, A.I.D. must strategically focus its resources to areas where assistance will be most effective. A.I.D.'s new environment initiative will help us accomplish this goal. Under the new initiative, A.I.D. will focus on local environmental problems with global implications in those countries where we can have the greatest impact. A.I.D. looks forward to the nineties as a decade of opportunity to integrate concern for the environment into all aspects of economic growth.

STATEMENT OF GLENN T. PRICKETT

Senator LEAHY. Let us have Mr. Prickett and Dr. Blackwelder come on up and give your statements, and then I will have a series of questions that I may want to go back and forth on.

Who would like to start? Shall we start with Mr. Prickett?

Mr. PRICKETT. Thank you, Mr. Chairman. Thank you for the opportunity to testify here today. I have also submitted a written statement that I would appreciate your including in the record.

This subcommittee has heard quite a lot from our organization over the years about the poor environmental performance of the World Bank and other multilateral organizations. This afternoon, I would like to turn some of the heat back on to our own administration, as you have just done, Mr. Chairman.

It seems that campaign promises have been much in the news lately. Most Americans have been trying to read the President's lips, looking for some slip in his commitment to protect our pocketbooks.

Meanwhile, the President, largely unnoticed, has engaged in full-scale retreat from another more important promise to protect the human health and livelihood of Americans from threats to the Earth's atmosphere. Building on a misguided, go slow approach here at home on global warming, the President has now added a dangerous new policy dimension, namely, read my lips, no new foreign aid for global environmental protection.

As you have just pointed out, Mr. Chairman, this is a dangerously misguided gamble with the health of Americans. On the ozone issue, developing countries have made it very clear, particularly some of the larger middle-income countries, they will not sign on to the Montreal protocol without commitments from the industrialized countries of minimal sums of foreign aid to help them phase out ozone-depleting chemicals.

The cost of this for the United States would be small, as you have just noted. According to EPA, $25 million to $30 million over 3 years. Without that amount, despite our best efforts here at home to phase out ozone depleting chemicals, the ozone layer will continue to deteriorate, millions of Americans will contract fatal cancers and the damage to American agriculture could reach the billions of dollars.

I am glad to hear that the subcommittee plans to send a strong message to the administration that Congress will support the Montreal protocol. And I have included some thoughts in my written statement about how you can begin to do that in drafting your fiscal year 1991 appropriations bill and I would be happy to share those with you in discussion.

On the global warming issue, as you mentioned, the subcommittee did valuable work last year in instructing AID to implement the global warming initiative. It is clear, even from the charts that AID has brought along, that it was able to reach that $15 million benchmark you set, with minimal deviation from its planned programs.

There is quite a bit that needs to be done in addition to what is happening at AID and I would urge that the benchmark for the global warming initiative be further increased this year to $30 mil-

lion. To make that assistance truly effective, there should be special attention to coordinating energy and forestry conservation programs at AID with the larger programs of the multilateral banks.

Dr. Blackwelder is going to speak more to the role of the World Bank and other multilateral banks in a moment, but I would add that on the energy side there are some small initiatives that AID is undertaking now in a small number of countries, most strikingly India and Costa Rica, to gear its energy assistance programs to leveraging larger World Bank loans for energy efficiency. I would urge the subcommittee to instruct AID that that should be the model for its energy conservation work in all the key countries.

PREPARED STATEMENT

I would also add my concern to that of the chairman that it looks as though AID may not be taking rapid implementation of the global warming initiative as seriously as we would hope. The Agency has already missed one deadline on April 15 to submit a report identifying the key countries. I would urge the subcommittee before it marks up its fiscal year 1991 bill, to receive some detailed notice from AID about the efforts of the missions and the bureaus to begin action plans in each key country.

That concludes my statement. I will be happy to answer any questions.

Senator LEAHY. Thank you very much.

[The statement follows:]

STATEMENT OF GLENN T. PRICKETT

I am Glenn T. Prickett, Research Associate with the Natural Resources Defense Council (NRDC). NRDC is a private, nonprofit, environmental organization with over 135,000 members. For more than 15 years NRDC has maintained an international program which has focussed on global atmospheric issues, as well as the relationship between environment and development. As you know, Mr. Chairman, we have closely followed the environmental performance of the multilateral development banks (MDBs) and of the U.S. Agency for International Development (USAID). For the past 17 months I have been engaged in an extensive review of the energy programs of the World Bank, the regional development banks, and USAID. I hold a bachelor's degree in economics and political science from Yale University, where I studied international environmental and development policy. Thank you for giving me the opportunity to testify here today on the subject of energy and the environment in development assistance.

I. WHITE HOUSE OPPOSITION TO URGENTLY-NEEDED AID COMMITMENTS

Political leaders around the world have begun to identify environmental protection -- at both local and global levels -- as a critical element of international economic and political security. In recent years, international consensus has either solidified or begun to form around necessary international steps to reduce stratospheric ozone depletion, transboundary shipments of hazardous wastes and pesticides, global climate change, destruction of tropical forests, and biodiversity loss, among other problems. Additional assistance to developing nations is a central feature of the emerging consensus on many of these issues. However, recent steps by the Bush Administration to oppose additional U.S. assistance for such purposes threaten to disrupt urgently needed progress.

The role of the developing nations in international responses to environmental degradation presents unique challenges. On the one hand, the Third World's current and past contributions to global environmental pollution have been small relative to the industrialized countries. On the other hand, developing countries are currently expected to become the leading sources of greenhouse and ozone-depleting gases early in the next century. Tropical nations, home to more than 50% of the earth's biological diversity, will face increasing pressures to liquidate natural resources in order to generate needed foreign exchange.

Attempts to resolve global environmental issues in international fora have included careful attention to the special circumstances of developing nations. For example, the Montreal Protocol on Substances that Deplete the Ozone Layer allows developing countries a 10 year grace period on the phase-out of controlled substances. Amendments to the Protocol currently under negotiation aim to establish concessional financial mechanisms to assist developing countries adopt ozone-friendly substitutes. Similarly, preliminary discussions on an international response to the threat of global climate change have included recognition of the need to provide additional economic assistance to developing countries.

In this context, recent policy pronouncements by the Bush Administration refuting the need for additional environmental assistance to developing countries are particularly disturbing. The Bush White House has in the past few weeks attempted to sabotage two promising initiatives to create financial mechanisms under the Montreal Protocol and to establish a new funding facility at the World Bank for global environmental initiatives. Bush's actions are especially troubling given the fact that the U.S. has been a world leader in negotiating the Montreal Protocol and in promoting environmental reform at the World Bank.

A. Montreal Protocol

At a May 9-11 working group meeting of Parties to the Montreal Protocol in Geneva, the U.S. stood alone in opposing the creation of financial mechanisms to enable developing countries to meet the requirements of the Protocol. Roundly criticized by the other nations in attendance, the U.S. declaration reversed statements of support for new aid mechanisms made previously by the Environmental Protection Agency (EPA) and the State Department.

U.S. opposition to additional funding threatens to undermine the Protocol's goal of preserving the integrity of the stratospheric ozone layer. Without financial concessions, middle-income industrializing countries such as China, India, and Brazil -- as a group, the largest future source of emissions of ozone depleting chemicals -- are unlikely to become Parties to the Protocol.

The financial requirements of the proposed mechanisms are startlingly small in relation to the substantial benefits of enabling wider participation in the Protocol. EPA has identified

total financial requirements over three years at $112-215 million. Although the Parties have not agreed on a scheme for individual country contributions, EPA estimates the U.S. share at roughly $25-30 million. Faced with the prospects of millions of additional cases of skin cancer and other health risks and billions of dollars in damage to American agriculture, $25 million represents a highly cost-effective investment. Such an investment becomes even more attractive when one considers that the U.S. Treasury stands to collect over $5 billion in the next five years from recently implemented taxes on U.S. production of chemicals controlled under the Protocol.

B. World Bank "Green Fund"

The same day that U.S. negotiators in Geneva opposed aid amendments to the Montreal Protocol, a Treasury Department representative at a meeting of the World Bank-IMF Development Committee attempted to block a similar initiative by the World Bank. The Bank is seeking additional funds from donors to establish a concessional facility for global environmental projects, such as reducing greenhouse and ozone-depleting gas emissions and preserving biodiversity. According to the Administration, the Bank needs no additional funds for such projects.

Similar to the ozone case, Treasury's declaration reversed an earlier position taken by the U.S. at a March donors meeting in Paris. The U.S. delegation to that meeting, led by the U.S. Executive Director of the Bank, took the position that "no decision could be made until. . .the shape of the facility was clear and complete."[1] Although the U.S. delegation noted several concerns with the details of the Bank's proposal, it did not preclude the possibility that additional funds may be warranted. The U.S. statement at the Development Committee summarily dismissed this possibility, without allowing further clarification of the details of the Bank's proposal.

NRDC's reaction to the Bank's proposal is similar to the original position of Treasury. We do have concerns about the proposal's failure to address important structural issues, such as

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[1] "World Bank Meeting on Funding for the Global Environment," State Department Cable No. 092481, March 1990.

the relationship of the proposed facility to the Bank's existing programs and the need for greater public accountability in all Bank operations. I have submitted for the record an April 10 letter to Treasury Secretary Brady which details these concerns. However, it is clear that developing countries will require additional aid resources to address global problems such as ozone depletion, global warming, and biodiversity loss. In some cases, the solutions to these problems will entail development alternatives that are not traditional "least-cost" options. Existing IBRD and IDA funds may be unsuited for such purposes. If the Bank is to play an important role, donor countries must be prepared to make additional funds available.

C. Needed Congressional Action

Recent policy reversals on the Montreal Protocol and the World Bank's proposed "Green Fund" clearly indicate a high-level White House disregard for the professional judgement of Administration officials. Early positions by State, Treasury, and EPA recognized the undeniable need for additional aid resources in addressing global environmental challenges. In fact, it is clear that making additional assistance available to developing nations to avoid emissions of greenhouse and ozone depleting gases may be the only means of assuring our own health and well being. The current dearth of Third World signatories to the Montreal Protocol is an ominous testimony to this proposition. The Subcommittee should send a clear signal to the President that it will not tolerate callous disregard of the potential serious impacts of increased Third World emissions on the lives and livelihoods of U.S. citizens. NRDC urges the Subcommittee to include additional funds in its FY 91 appropriations bill for initiatives to moderate emissions of greenhouse and ozone depleting gases in developing nations.

Amendments to the Montreal Protocol expected to be adopted in June will, among other things, establish a new multilateral fund, most likely to be administered by the World Bank and governed by the Parties. Also, the amended Protocol is expected to call for increased bilateral and multilateral technical assistance programs. Based on a total expected U.S. contribution of $30 million over three years, the U.S. should be prepared to contribute at least $15 million to the fund. The remaining amount should be divided between the United Nations Environment Program (UNEP), in its role as Secretariat to the Protocol, and EPA. UNEP will require additional funds for oversight of the new fund and provision of technical assistance. EPA is the appropriate conduit for U.S. bilateral technical assistance.

NRDC was pleased to see that both the Chairman and the Ranking Minority Member of this Subcommittee joined 22 other Senators in urging the President to support these amendments. The Subcommittee should reinforce this message as it drafts its FY 91 appropriations bill. Regardless of the Administration's current opposition, a new multilateral fund will almost certainly be established by the Parties. NRDC recommends that the Subcommittee include an extra $5 million in funds appropriated to the President for contribution to this mechanism upon its establishment. Also, the Subcommittee should appropriate an additional $3 million to UNEP for oversight of the fund and provision of technical assistance. More generally, the Subcommittee should advise the President immediately that his categorical opposition to additional environmental funds for global environmental initiatives is inconsistent with the views of Congress and of his own officials.

II. SUSTAINABLE ENERGY DEVELOPMENT

Pending the creation of additional funding mechanisms, much can be done now to alleviate local and global environmental problems by focussing existing aid portfolios on energy efficiency. Directing increased levels of energy assistance toward improving the efficiency of energy supply and consumption will reduce the environmental damages associated with energy development. This Subcommittee has been a strong advocate of sustainable energy assistance in the past. This year, the Subcommittee should reinforce its message by making increased funding available to AID for projects in end-use energy efficiency and energy planning. Such projects should be designed to leverage larger commitments by the multilateral development banks for end-use efficiency programs.

The MDBs and USAID have made limited efforts over the past decade to help developing nations establish and strengthen energy conservation programs. However, these initiatives have been given shockingly low priority. For example, the World Bank -- the planet's largest financier of energy development -- has devoted no more than 4% of its energy and industry lending to end-use efficiency. Similarly, end-use energy efficiency programs account for less than 10% of USAID's energy programs. Given the urgent economic and environmental constraints facing Third World energy sectors, the MDBs and USAID should work closely in increasing their support for energy efficiency programs and helping borrowers to integrate those programs into their overall energy sector investment planning.

The following analysis is based on NRDC's research over the past year of the energy programs of the World Bank, the Asian Development Bank, the African Development Bank, and USAID. My testimony today will focus primarily on the programs of the World Bank and USAID. However, I will gladly answer any questions from the Subcommittee on the energy and environment programs of the regional banks. NRDC is working closely with the Treasury Department to prepare a report including recommendations for structural and methodological reforms at the MDBs to facilitate greater bank support for end-use energy efficiency programs. A draft of NRDC's report is currently under review by an international group of nongovernmental colleagues. I will be pleased to the share the final report with the Subcommittee when this review is complete.

A. The Need for Coordinated Action

The clearest message now issuing from all corners of the globe and all sides of the environmental debate is the need for coordinated, global action on the planet's environmental and economic challenges. Central to all discussions of global warming, ozone depletion, loss of biodiversity, Third World debt and other related problems is a realization that governments, international organizations, and citizens must work together more closely. This is eminently true of the issue I am addressing today. Greater cooperation between developing country governments and development agencies will be crucial in the creation of effective energy conservation programs.

Specifically, there is a need for closer coordination between the development assistance agencies. The World Bank, the regional banks, and USAID are all engaged in energy conservation activities, but there is little central coordination between their programs. The U.S. can generate a bigger bang for its energy assistance buck if these institutions work in partnership to strengthen energy conservation programs.

Each institution has its own "comparative advantage" in this area. USAID, with its relatively small, grant-based programs and continuous in-country presence, can be highly effective in helping countries strengthen energy conservation institutions, devise innovative methods for financing end-use efficiency improvements, and adopt innovative approaches to

energy planning. The MDBs, with their substantial lending portfolios and considerable policy influence, can help finance large investment programs in energy conservation and end-use efficiency, enhance the stature and credibility of energy conservation institutions, and support difficult policy reforms, including energy price increases and energy efficiency standards.

USAID is attempting to foster closer donor coordination through an informal program known as MAGPI -- the Multi-Agency Working Group on Innovation in the Power Sector. Spearheaded by USAID's Office of Energy, MAGPI includes energy staff from the World Bank, the three regional development banks, and several European bilateral aid agencies. In the last year, MAGPI has initiated a range of joint research efforts designed to foster closer working relationships. In India, for example, USAID and the World Bank will cooperate in a country-wide analysis of environmental considerations in the power sector. The Bank intends to include the results of this analysis in background documentation that will guide Bank lending in India's energy sector.

This consultative model should be expanded and focussed on coordinated efforts to stimulate end-use energy efficiency improvements. Donors should establish a special working group to coordinate support for energy efficiency and conservation activities in individual countries. This working group should also include representatives of Southern and Northern nongovernmental organizations (NGOs) with technical and policy expertise in energy and environment. USAID is currently sponsoring an ongoing dialogue on energy efficiency with NGOs and other donors, informally known as the "Global Energy Efficiency Initiative." This group can serve as a basis for a more formal and inclusive working group, making a special effort to draw on Southern expertise. In order to initiate this process, USAID's Office of Energy should be provided with additional resources to coordinate and manage the establishment of such a working group.

B. Implementation of USAID's Global Warming Initiative

Last year this Subcommittee issued a strong mandate for USAID to expand its programs in energy efficiency. In P.L. 101-167 and its accompanying report, Congress directed USAID to implement a Global Warming Initiative (GWI) -- funded at least at a level of $15 million in FY 90 -- involving substantial increases in energy and forestry programs. Congress also instructed USAID to take the following steps:

- Target $20 million in FY 90 for the Office of Energy, thereby doubling that Office's current budget.
- Increase the number and expertise of USAID staff in all Missions and Bureaus in the areas of energy efficiency and renewable energy.
- Expand programs in energy efficiency, renewable energy, and energy planning throughout the Agency.
- Focus increased energy assistance on key countries that contribute significantly to global greenhouse gas emissions, and in which USAID-assisted energy efficiency and renewable energy programs can significantly reduce those emissions.

As noted above, USAID has a comparative advantage among donor agencies in providing technical assistance and small demonstration financing to strengthen energy conservation institutions and provide financing for innovative energy efficiency technologies. Through its Missions and its central Office of Energy, USAID has already initiated a limited number of innovative energy efficiency and renewable energy projects. P.L. 101-167 provides specific instructions for USAID to expand this catalytic role, particularly in key countries and countries with large ESF programs.

Based on NRDC's analysis of USAID's Congressional Presentation (CP) for FY 91, it appears that USAID has satisfied Congress's minimum budgetary requirement for FY 90 through a net increase in relevant programs of approximately $20 million. However, it also appears that USAID has so far failed to satisfy equally important instructions in P.L. 101-167. For example the CP does not include any plans to support promising energy efficiency programs in China and Indonesia, both critical key countries. Energy programs in Poland, another key country, will focus almost exclusively on so-called "clean coal" technologies, despite a tremendous potential for end-use efficiency improvements in that country. Also, USAID has not funded its central Office of Energy at the level directed by Congress.

The Subcommittee should ensure that AID is moving expeditiously to implement the Global Warming Initiative. NRDC was troubled to see a copy of a May 9 letter to the Subcommittee that acknowledged AID's failure to submit by April 15 a report identifying key countries for the Global Warming Initiative. We expect that AID's delay in submitting this general report is not preventing AID's Missions and Bureaus from beginning work on specific action plans for key countries. Before the Subcommittee marks up its FY 91 bill, AID should inform the Subcommittee of steps being taken by key country Mission Directors and by the

heads of the Bureaus to plan for new and enhanced projects in energy and forestry under the Global Warming Initiative.

New U.S. direct-hire staff will be critical to managing increased USAID energy efficiency programs. P.L. 101-167 specifically instructs USAID to increase the number of direct-hire personnel with expertise in energy and environment and authorizes USAID to use program funds for this purpose. NRDC was pleased to see that former Acting Administrator Edelman, in a March 12 letter to the Chairman of this Subcommittee, committed the Agency to hiring up to 20 additional environment and energy staff. We were also pleased to learn that the Agency is developing long and short term training programs for its Mission and Washington staff. The Subcommittee should ensure that Administrator Roskens is also personally committed to these hiring and training targets, and that USAID's new staffing complement will include individuals with experience in the design and implementation of successful end-use efficiency programs.

The Agency should also expand training programs for host country energy sector officials and line agency staff. The Office of Energy's training activities should be expanded to allow key country energy policymakers to meet with U.S. energy sector officials involved in successful conservation and energy planning programs. For example, USAID should sponsor training programs for developing country electric utility officials with U.S. counterparts who have considerable experience in least-cost planning and utility-sponsored conservation programs. NRDC has worked closely with these officials and is advising USAID on establishing such a training program. Similar exchanges should be established for officials in the transportation and industrial sectors.

The Office of Energy will be a major resource of staff expertise for USAID in carrying out the energy programs described above. To provide the technical assistance necessary for expanded least-cost planning activities, institutional support for efficiency and renewable energy programs, and catalytic demonstration projects in these areas, the Office of Energy will require significant expansion. The Conference Report accompanying P.L. 101-167 stated "that funding for AID's Office of Energy should be targeted at $20 million in FY 90".

USAID has not met this target. The Agency's FY 91 CP lists the Office of Energy's FY 90 budget at roughly $15.4 million. While this represents a slightly more than $5 million increase over the FY 89 budget, it nevertheless clearly falls short of the congressional target. Moreover, the CP proposes to then cut the Office's budget by roughly $2.1 million in FY 91. The Subcommittee should send a clear messages to the Agency that the seriousness of the global warming issue demands much more than a one year commitment. The Office's budget for FY 90 should be increased to meet the congressional target and further increased in FY 91 to $30 million.

C. The World Bank

In the past year, the World Bank has publicly reversed course on the issue of end-use energy efficiency. One year ago, Bank officials told NRDC that the Bank was not interested in increasing its support for end-use energy efficiency programs in developing countries. According to these Bank officials, such projects were outside the Bank's area of "comparative advantage." Subsequently, as a result of substantial public pressure, Bank president Barber Conable announced at the Bank's September 1989 annual meeting that the Bank would "take an active leadership role" in supporting energy efficiency improvements.

However, the Bank has not yet translated its new rhetoric into operational reality. In 1989, no more than 3% of the Bank's lending in the energy and industry sectors supported end-use energy efficiency programs. Over the last decade, the Bank's performance has been little better. By NRDC's accounting, since 1980, the Bank has supported energy conservation programs in 26 countries through 35 loans totaling roughly $1 billion (see attached table).[2] This figure represents less than 4% of a total energy program of $26 billion since 1982, and less than 3% of the combined energy and industry programs of $34 billion since that date.

The Congress, in last year's appropriations bill, made several critical recommendations for institutional reforms at the World Bank and the other MDBs that, if implemented, will significantly increase the banks' attention to end-use energy efficiency programs. P.L. 101-167 instructs the U.S. Executive Director of the World Bank to advocate the following reforms:

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[2] Estimation based on NRDC analysis of World Bank Annual Reports and project reports (Staff Appraisal Reports and President's Reports). Project reports were not available to NRDC for all projects; therefore exact values for end-use efficiency components of larger loans are unknown.

- Enhanced staff capabilities in end-use energy efficiency and renewable energy;
- Technical and financial support for borrowers to include consideration of end-use energy efficiency programs in energy sector investment planning;
- Systematic consideration of environmental costs and energy efficiency alternatives in economic and environmental assessments of proposed energy projects; and
- Increased lending and technical assistance for end-use energy efficiency programs.

These instructions have already had a significant impact. As a result of strong advocacy by the Treasury Department, the recently approved report of the Board of Governors of the International Development Association (IDA) -- the Bank's "soft" loan window -- on the ninth capital replenishment of IDA (IDA-9) includes recommendations on all four of these points. The Subcommittee should ensure that the Treasury Department and the U.S. Executive Director to the World Bank continue to advocate these reforms, focussing on the following priority areas:

- **Integration of ESMAP and World Bank Loan Operations** The Bank provides considerable technical assistance to end-use efficiency programs in its borrowing countries through the Energy Sector Management Assistance Program (ESMAP). Unfortunately, ESMAP's activities are not well integrated with the Bank's far more significant lending operations. ESMAP's pre-investment work in identifying end-use efficiency projects, strengthening energy conservation institutions, and designing energy efficiency policies and standards should provide a basis for substantially increased Bank lending for end-use efficiency.
- **Expanded Power Sector Investment Planning** The Bank has long required that proposed investments in the power sector meet least-cost criteria. To help borrowers identify least-cost energy investments, the Bank supports investment planning studies, often as components of loan operations. However, power sector investment planning has typically been limited to comparing alternatives for expanding and maintaining electricity supply and has not considered cost-effective demand reduction measures. Annual appropriations for IBRD and IDA should be based on demonstrable evidence that the Bank is working with its borrowers to include consideration of end-use efficiency programs in power sector investment planning.
- **Enhanced Staff Capabilities** Making end-use efficiency a World Bank priority will require experienced staff to manage end-use efficiency projects. Currently, the economists and engineers who oversee the Bank's energy lending program have little experience or training in the design and implementation of end-use efficiency programs. The staff of each Bank country department should include an "energy efficiency coordinator." This individual should be responsible for loans for energy efficiency in all sectors, including energy, industry, transportation, agriculture, and household fuel use. These positions should be filled by individuals with experience in the design and implementation of successful end-use efficiency programs. To the extent that new positions cannot be created, an existing energy staffer should assume these responsibilities.

III. CONCLUSION

International consensus currently emerging on needed actions to combat the related threats of global warming and stratospheric ozone depletion includes a recognition that

substantial additional resource transfers to the developing world will be crucial in defending the environmental integrity of the planet. As improving relations between East and West allow us to devote greater attention to urgent environmental challenges, we must not forget that the North -- as the world's primary source of pollution -- has global obligations. Specifically, the United States should recognize that the earth's future -- as well as our own -- will depend on substantially enhanced assistance to developing nations in reconciling economic growth with environmental protection. This Subcommittee should be a strong advocate with the Administration and within the Congress for increased concessional assistance for this purpose.

At the same time, the Subcommittee should continue to play a leading role in calling for environmental reform at the multilateral development banks and USAID. In the past year the World Bank and USAID have both publicly acknowledged that energy efficiency is a critical development issue that deserves high priority in development assistance portfolios. However, neither institution has yet translated this stated commitment into operational reality. Continued oversight from this Subcommittee will be crucial to ensuring that energy efficiency becomes a central priority in the energy programs of these institutions. Specifically, the Subcommittee should focus its oversight on the following areas:

- **Donor Coordination** USAID should take the lead in establishing a formal donor-NGO working group on energy efficiency. This group should serve to coordinate donor energy programs in borrowing countries to ensure maximum effective support for end-use energy efficiency programs. In this coordinated effort, USAID and other bilateral agencies, through grant-based technical assistance, should help countries establish and strengthen energy conservation institutions and assist in pre-investment work to identify funding opportunities for innovative energy efficiency technologies. These pre-investment activities should leverage much larger resources from the MDBs to finance energy efficiency investment programs. This working group should draw extensively on Southern nongovernmental expertise on this issue.

- **Implementing USAID's Global Warming Initiative** USAID should develop projects to support promising end-use energy efficiency programs in the key countries of Brazil, China, Indonesia, and Poland. Existing energy efficiency, renewable energy and power planning work in India should be substantially expanded. The Agency should cooperate with the World Bank and experienced NGOs in helping key countries include consideration of end-use efficiency in energy sector investment planning. The Agency should act on the commitment of former Acting Administrator Edelman to hire at least 20 new energy and environment staff, including individuals with experience in end-use efficiency. The Agency should increase the Office of Energy's budget for FY 90 to $20 million, in keeping with Congress's instruction, and further increase that Office's budget in FY 91 to $30 million.

- **Reforming World Bank Energy Priorities** Annual appropriations for IBRD and IDA should be based on substantial Bank progress in the following areas, all of which have been clearly identified in P.L. 101-167 and the Report of the IDA Board of Governors on the IDA-9 replenishment: (1) closer integration of ESMAP's pre-investment work in end-use efficiency with the Bank's lending program, (2) cooperation with USAID and NGOs in helping borrowers include consideration of end-use efficiency programs in power sector investment planning, and (3) increased staff capabilities in end-use energy efficiency and renewable energy.

LETTER FROM NATIONAL RESOURCES DEFENSE COUNCIL

The Honorable Nicholas F. Brady
Secretary of the Treasury
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

March 9, 1990

Dear Secretary Brady:

We are writing to express our concerns with the World Bank's proposal for creation of a new environmental lending facility, as described in the Bank's February 1990 document "Funding for the Global Environment." While we believe that substantial additional resources are required to assist developing countries in addressing global environmental problems and that the Bank potentially can be a positive force on these issues, we question the World Bank's capability to administer the proposed new fund before substantial environmental reforms have been implemented at the institution. In addition to our substantive concerns, we are deeply troubled that the Bank has so far refused to include nongovernmental organizations (NGOs), and particularly those from borrowing countries, in discussions on this proposal. We hope that the U.S. representatives at the donors meeting on this proposal, currently scheduled for March 15-16, will raise the issues discussed in this letter.

I. THE URGENT NEED FOR ADDITIONAL FUNDING FOR THE GLOBAL ENVIRONMENT

Additional financial and technical assistance from industrialized countries will be crucial in helping developing countries address global environmental problems. We essentially agree with the Bank's basic analysis of the need for increased resource transfers to limit emissions of greenhouse and ozone-depleting gases and preserve biodiversity and water quality. In recent years, the international community has increasingly begun to recognize the pressing necessity for such additional funding.

- Ozone Depletion. Strong consensus has begun to form on the need for additional assistance to Third World nations in phasing out ozone-depleting chlorofluorocarbons (CFCs) and other substances. Ongoing negotiations on amendments to the Montreal Protocol on Substances that Deplete the Ozone Layer have suggested that $100-400 million will be needed over the next 4 years.

- Global Warming. Similar calls for additional funding to help developing countries moderate emissions of greenhouse gases are becoming increasingly frequent. The governments of Mexico and India individually have made proposals to this effect. Several international declarations have stressed the need for additional funding, including the statement of the February 1989 "International Conference on Global Warming and Climate Change," held in New Delhi and attended primarily by Third World scientists. Representatives of the United States Government have subscribed to a number of these declarations, including those from the 1988 Toronto Conference on the Changing Atmosphere, and the 1989 Noordwijk Ministerial Conference on Atmospheric Pollution and Climate Change -- a meeting of environment ministers from 68 countries.

- Biological Diversity. Although less clearly defined, the need for additional resources to assist in the protection of biological diversity is no less critical. The World

Resources Institute has issued preliminary estimates suggesting that an initial investment of $500 million to $1 billion would be required to establish a system for preservation of tropical forest biodiversity, with continuing annual investments of $100 to $300 million required to maintain the system.

II. THE BANK'S ENVIRONMENTAL RECORD RAISES QUESTIONS AS TO ITS CAPABILITY PROPERLY TO MANAGE ADDITIONAL RESOURCES DEDICATED TO ENVIRONMENTAL PROTECTION

Although we fully agree with the principle of additional resource transfers to deal with global environmental problems, we are highly skeptical of the World Bank's proposal on the management of such additional resources. The Bank's track record on environmental issues does not yet provide any indication that it would be an adequate trustee for such a critically important environmental fund.

While the Bank has made some progress on environmental issues in the last few years, its has not yet demonstrated its ability to harmonize its own lending program with its stated environmental objectives. These failures reflect the Bank's continuing inability to adopt and enforce effective environmental policies. The Bank has continued to fund highly controversial projects, such as India's Narmada Valley development program, which have long been known to be environmental disasters. Recent and upcoming forestry loans to Guinea and Cote d'Ivoire, for example, have failed to guarantee adequate protection for natural tropical forests. End-use efficiency projects still account for less than 4% of Bank energy lending.

Moreover, the Bank has had continued difficulty in implementing its existing environmental and social policies in previously approved projects. For example, thousands of people have been displaced and have failed to receive compensation as a result of the Bank-financed Kedung Umbo Dam Project in Indonesia, the Ruzizi II Regional Hydroelectric Project in Zaire and Rwanda, and the Kianbere Hydroelectric Project in Kenya.

Until there is demonstrable evidence that the Bank has broken from past practices, its past performance must be the basis for analyzing its likely performance in implementing the proposed environmental fund. The Bank must demonstrate a commitment to reforming its existing policies and programs, as evidenced by substantially improved performance in actual fact. At a minimum, the Bank should demonstrate progress in the following critical areas:

- Existing Programs Must Be Reexamined. The proposal repeatedly emphasizes that environmental funds will be provided in addition to existing aid programs. The Director of the Bank's Environment Department, representing the Bank at the Noordwijk meeting mentioned above, strongly suggested that only additional funds would be used to address global environmental issues. While we agree that new funds must be provided for this purpose, we believe that existing programs must also be reexamined. We are very concerned that, unless serious attempts are made to address global environmental issues in the Bank's existing portfolios -- especially through programs such as end-use energy efficiency that are both environmentally and economically beneficial -- it will be difficult or impossible to justify additional funds for these purposes.

- Forestry. The Bank has announced a tripling in its forestry lending over the next several years. However, there is no

indication that the Bank has moderated its traditional focus on industrial timber extraction. The Bank should demonstrate that a significant portion of its forestry lending program is devoted to natural forest preservation, agroforestry, and ecosystem conservation. In addition, the Bank should work to reform the Tropical Forestry Action Plan (TFAP) process so that its primary focus is conservation of forests and biological diversity. Participation of local NGOs and affected populations should be guaranteed in all stages of the TFAP process in all countries.

- Energy Efficiency. Despite public pronouncements to the contrary, the Bank has made little progress in including end-use energy efficiency in its energy lending program despite the fact that many nations will lack sufficient capital to meet expected energy demands. The Bank should increase its staff capabilities in the area of end-use efficiency, assist borrowers in integrating end-use efficiency programs into energy sector investment planning, and significantly increase lending for end-use efficiency programs and non-conventional renewable energy development. The work of the Energy Sector Management Assistance Program (ESMAP) should be more closely integrated into the Bank's lending program.

- Environmental Assessment. While the Bank recently adopted a policy on environmental assessment (EA) of proposed projects, the policy has several disturbing flaws. For example, consideration of global environmental impacts is explicitly excluded from the EA policy, despite the Bank's newly-stated position that global environmental issues are of critical importance. Similarly, structural and sector adjustment lending -- arguably the most important areas of Bank operations -- are categorically excluded from EA requirements. Moreover, the Bank's policy fails adequately to guarantee public participation in the EA process and public access to EA documents -- basic components of internationally accepted practice on environmental impact assessment. The public participation requirements in the EA directive, particularly as they apply to the supposed beneficiaries of Bank lending in borrowing countries, must be considerably more specific to achieve the desired goal. Moreover, the Bank's policy on environmental assessment should be extended to include projects that are purportedly beneficial to the environment, including projects supported by the proposed fund.

- Access to Information. The Bank still systematically withholds basic documents on its operations from the public in both borrowing and donor member countries. Even member governments are allowed to view basic loan documents only two weeks before consideration by the Bank's board. The Bank should instead institute a policy that specifically identifies a limited number of precisely defined categories of information that may be treated as confidential by the Bank. All documents not falling in these categories should be publicly available. Documents concerning fundamental physical, institutional, and economic elements of Bank operations should never be treated as confidential and all final loan-related documents should be publicly available at least six months prior to Board presentation. A substantial justification should be required for treating any document as confidential.

- Staffing. The Bank's existing staffing configuration is totally inadequate to manage the additional responsibilities implicit in the creation of this fund. Existing numbers of Bank professional staff are insufficient to handle the

Bank's current portfolio and are already overtaxed from excessive pressures to "move" huge amounts of money. Moreover, Bank staff are now deployed in a manner totally inconsistent with the purposes of the proposed fund. For instance, the Bank has more than 30 power and fossil fuel engineers and specialists, but fewer than 5 staff professionally trained in the area of energy efficiency. The Bank should make a commitment to adding new staff and reconfiguring existing staff positions as a component of creating this new fund.

III. FAILURE TO CONSULT THE PUBLIC

We are shocked and dismayed that, despite the special interest and knowledge of NGOs and other members of the public on issues of environment and development, the Bank has refused participation to the public in the formulation and discussion of its proposal. The Bank has refused repeated requests by NGOs to review the proposal, to participate formally in the discussion process, and even to meet with Bank staff on this issue. To our knowledge, no NGOs or other members of the public have been invited to the March 15-16 donors meeting, even as observers. The Bank's practice stands in stark contrast to that of the United Nations Environment Program (UNEP), which has encouraged open debate on the creation of a fund to finance alternatives to CFCs within the context of the Montreal Protocol.

The refusal of the Bank to allow public participation in this discussion process suggests that public participation would be given low priority in a Bank-administered environmental fund. As you know, failure to consult local people -- the supposed beneficiaries of Bank lending -- has led to fatal environmental flaws in past Bank projects. We are deeply concerned that an environmental fund based on the established World Bank principle of secrecy could be dangerously counterproductive. We urge you to demand that the Bank invite as observers interested members of the public and NGOs from all member countries to attend the March 15-16 donors meeting, including in particular adequate representation of NGOs from borrowing nations.

Again, we would like to emphasize that we fully support additional international funding to help developing countries address global environmental problems and that the Bank has an important role to play on these issues. However, the World Bank's record gives us no confidence that it will appropriately manage the programs and projects described in its proposal. The Bank must demonstrate a serious commitment to reforming the policies and programs outlined above. In particular, the creation of this new fund must not become an excuse for failing to implement a long overdue retooling of ongoing lending programs. Participation in the fund by the United States must be conditioned on explicit requirements that will guarantee such reform.

Cordially,

Glenn T. Prickett
Research Associate

Eric Christensen
Project Attorney

David A. Wirth
Senior Attorney

on behalf of:

Barbara Bramble
Director of International Programs
National Wildlife Federation

Larry Williams
Director of International Programs
Sierra Club

Bruce M. Rich
Senior Staff Attorney & Director, International Program
Environmental Defense Fund

Hope Babcock
General Counsel
National Audubon Society

Kilaparti Ramakrishna
Senior Fellow
Woods Hole Research Institute

Alden Meyer
Director, Climate Change & Energy Programs
Union of Concerned Scientists

STATEMENT OF BRENT BLACKWELDER

Senator LEAHY. Why do we not have Dr. Blackwelder go ahead with his statement, and then I want to yield to Senator Kasten for his opening statement, and then we will go to questions.

Dr. BLACKWELDER. Thank you. On behalf of Friends of the Earth, I would like to commend you, Mr. Chairman, and you, Senator Kasten, for the outstanding leadership you have showed over the years on global environmental issues. I think this leadership has been unsurpassed and has been a shining light. We commend you for holding this hearing in particular.

Our organization has been involved in looking at the issue of global warming and the role of the multilateral development banks. And if you ask what can be done by the banks to address this, there are two solutions. One is to make the countries of the world much more energy efficient. And the second is to stop deforestation and begin a program of reforestation. These are the two most important initiatives that the multilateral development banks could take. And the committee has, over the years, provided extensive exhortation and directives to the multilateral development banks to do just that.

In my prepared statement, I make an analysis on how well they have done on both counts, and we would have to give them, particularly the World Bank, failing grades because they have not changed their energy lending substantially to make it going for energy efficient projects. In fact, 1989 was as bad as any year I have examined going back to 1983. We found that less than 3 percent of their energy lending went for energy conservation and efficiency. And this is a far cry from the directive that you issued, and have issued for several years calling for much more balance and much more emphasis on this kind of project. I list big dams, huge coal projects, oil pipelines, and so forth.

The Bank last year, in our judgement, essentially threw away $2 billion because it could have gotten the equivalent energy return if it invested in efficiency and conservation instead.

If we turn from the question of what the banks have done on energy conservation to the question of what they have done on forestry lending, we were hopeful that when the World Bank initiated participation in the tropical forestry action plan several years ago, that this would be a primary tool to reverse the serious trend of

tropical deforestation. We are now losing an area roughly the size of Pennsylvania each year. And tropical deforestation, just as much as burning fossil fuels, is a significant source of greenhouse gases. It is estimated by some that about 18 percent of the emissions of carbon dioxide and methane nitrous oxides are coming from tropical deforestation.

But instead of being a tool to ameliorate tropical forest loss, the tropical forestry action plan seems to have been an engine for tropical forest destruction. I cite three examples: in 1990, there was a $23 million loan for Guinea which will essentially open up the two key remaining primary tropical forest areas that have not been destroyed. We looked at an Ivory Coast loan this year, again, essentially an engine for opening up and destroying these forestry lands. Pending is a loan for Cameroon which would bisect the forestry areas used by some 50,000 members of the Pygmy tribe.

I put the map of Africa there. All across the central band is where you have your tropical forests, moving from the Ivory Coast, Guinea into Cameroon, down to Gabon and into the Congo and Zaire. And so instead of being an instrument to ameliorate the destruction, it is actually underwriting and financing the convergence, so that some of these countries may turn out to be instead of exporters of wood, importers of wood in a few years.

What can be done?

Unfortunately the thing we think that has to be done, given 8 years of very strong initiatives by this committee, is to deliver some ultimatum to the World Bank that it has got to radically change its energy lending portfolio and it has got to fundamentally cease and desist from participation in the tropical forestry action plan and totally revise its thinking in this respect.

We would fully support and pledge our backing for this kind of ultimatum. I think nothing short of that is going to do the job because we have had plenty of reasonable, rational pleadings with the Bank over this period of time, and we still do not see that much coming out of the pipeline that is anything different from what they were doing 7 or 8 years ago.

PREPARED STATEMENT

I would conclude my statement by saying that loans for energy efficiency rather than imposing a burden on the developing countries would actually be a great salvation because they would ease the debt burden, they would not result in the displacement of people and they would save those economies four to six times as much money as investments in energy supply projects.

This concludes my statement.

Senator LEAHY. Thank you.

[The statement follows:]

STATEMENT OF DR. BRENT BLACKWELDER

Introduction. Friends of the Earth commends this Committee for its leadership on global environmental issues and appreciates the opportunity to testify on the role of the multilateral development banks in addressing global warming. To confront the challenge of global warming two major initiatives must be pursued. First, all countries of the world must become much more efficient in their use of energy. Second, deforestation trends must be reversed and massive reforestation undertaken.

To evaluate the response of the multilateral developement banks to the problems posed by global warming and in particular to look at their response in light of this Committee's directives, it is appropriate to focus on lending by the multilateral development banks in the energy and forestry sectors.

ENERGY. An analysis of the World Bank's energy lending for 1989 reveals a pattern of lending totally oblivious to concerns about the greenhouse effect. Friends of the Earth's analysis shows that less than 3% of the Bank's energy lending went for energy conservation and efficiency. The overwhelming thrust of the Bank's energy financing is for massive fossil fuel projects--coal fired power plants in India and Indonesia, pipelines, geothermal projects, and oil drilling, as well as for big dams.

In 1989 the World Bank made the following loans for large-scale coal development, oil development and dams, all of which stand in sharp contrast to the directives from this Committee to pursue more of a balance between energy efficiency improvements and supply side construction.

$90 million for coal development in Thailand
$460 million for two big dams in Mexico
$354 million for coal development in Indonesia
$458 million for dam construction in India
$46 million for a dam in Malawi
$340 million for an oil pipeline in India
$5.5 million for oil drilling in Tunisia
$9.2 million for geothermal development in Djibouti
$40.7 million for geothermal development in Kenya
$18 million for a dam in Central African Republic
$250 million for miscellaneous energy development in Pakistan

Had the World Bank invested just one fourth of this money in end-use energy efficiency projects, it probably could have achieved the same yield of energy. Thus, the Bank essentially threw away about two billion dollars on energy loans that will require long construction times, aggravate the debt burden of these countries, and postpone a solution to global warming.

From a banker's perspective and from a debt perspective none of this lending makes the slightest bit of sense because a rate of return four to six times higher could have been obtained by loaning instead for energy efficiency improvements. Furthermore, loans for efficiency have much quicker paybacks and do not involve the substantial social upheaval of big power plants and dams. Nor do loans for energy efficiency have the disastrous environmental consequences of the big power plants and dams financed by the Bank.

Despite repeated directives from this Committee over the past several years for the World Bank to give priority attention to energy conservation and efficiency, very little different is now occurring in terms of dollar commitments to such investments. Since 1982 the World Bank has loaned over $26 billion for energy but only about $1 billion, or less than 4% of the total, has gone to end-use efficiency. The fact that the Bank has made 35 energy

conservation loans to 26 countries demonstrates that this kind of lending can be done, but it is the exception, not the rule.

Friends of the Earth wishes to lay out some of the reasons advanced by the Bank for failing to pursue efficiency and conservation. One argument offered by bank staff against energy conservation projects is that they are not appropriate in developing countries. However, the World Bank's own Energy Department Paper Number 32 shows how cost-effective energy conservation really is. Studies of Brazil's energy use show that spending $8 billion on more efficient lights, motors, and appliances would save $38 billion in new power plant projects. The mix of investments in efficiency varies from country to country, but we know of no country where substantial potential is not present. In India, for example, more efficient irrigation pumps could make an extraordinary difference in energy use.

One of the excuses offered by the Bank for not pursuing more energy conservation and efficiency is that countries are not asking for such loans. This is certainly not the case. Friends of the Earth knows of at least three cases where energy conservation loans were sought and pushed by and for developing countries only to receive a negative response from the Bank.

The Bank sometimes argues that energy conservation involves a bunch of small projects which the Bank is ill suited to finance. Often the comment is made that managing a small project takes as much time as managing a big one. This objection is fundamentally flawed because the Bank would not be involved in the managing of a bunch of small projects. Rather it would be providing funding to a country so that the appropriate distributors of the efficient equipment could do so.

Some Bank staff claim that the Bank is doing energy conservation by pushing for improvements in energy pricing policy. While we fully concur that pricing reform needs to be done to reflect the real cost of resource use, there is a tremendous amount of additional project lending on conservation and efficiency which needs to be done above and beyond pricing policy.

Another explanation is that Bank staff is rewarded on the amount of money moved rather than on the rate of return or success of the loan. Thus Bank staff are not rewarded on the basis of the standard incentives that contribute toward successful loans.

FORESTS

An examination of MDB forestry lending shows that the Bank's Tropical Forest Action Plan (TFAP) is actually serving as the engine of deforestation. A most recent case in point is the series of loans which would accelerate tropical forest loss in Africa.

1. Background.

Some background on the Tropical Forestry Action Plan is in order.

The Tropical Forestry Action Plan began as a joint project of the World Bank, the World Resources Institute (WRI), the United Nations Development Program (UNDP) and the Food and Agriculture Organization (FAO) as a means to call world attention to the seriousness of tropical deforestation, and to mobilize financial and human resources to combat it.

The Tropical Forest Action Plan founding document, published in 1985, Tropical Forests: A Call for Action, identified the spread of agriculture, including both crop and livestock production, as the single greatest cause of forest destruction. Rural poverty,

skewed land distribution, low agricultural productivity, and rapid population growth were also identified as critical contributing causes.

WRI, the World Bank and UNDP proposed a system to address the multiple causes of deforestation in a global process of individual-country policy reviews coupled with multilateral development bank (MDB) and bilateral aid agency investments of $8 billion in five years, from 1987 - 1991. However, while deforestation was identified as stemming from a number of complex and interacting causes, four of the five investment areas identified by the Plan were for forest operations.

TFAP operational guidelines specify a series of in-country, multi-sectoral meetings that each participating country is expected to complete during the TFAP process. These were to be led by country planning departments or another high-level ministry and were to incorporate all relevant sectors, including agriculture, social services and non-governmental organizations (NGOs). However, as the Tropical Forestry Action Plan has evolved, NGOs and non-forestry sector agencies were and are rarely included as full players in the discussion process.

What began as a potentially worthwhile initiative to coordinate international lending for countries with tropical rainforests, is now revealing itself as a serious threat to the existence of the world's remaining tropical forests. Under the TFAP umbrella, billions of dollars will be poured into investment plans that represent first and foremost the traditional approach to forest exploitation. By concentrating on the promotion of export-oriented timber industries, this approach constitutes an incentive for an acceleration of logging activities. While criticizing British government support for the TFAP in February 1990, Prince Charles succinctly summarized the TFAP as a plan "which did not look beyond chopping down trees". Recent evidence gathered by environmental organizations confirms this basic assessment.

Early criticism in 1986 of the TFAP process by Third World NGOs, such as Friends of the Earth (Brazil) and the Malaysia-based Asia Pacific Peoples' Environmental Network (APPEN) remain extremely relevant. The TFAP represents a classical top-down approach, because it was developed in almost complete isolation from local peoples and with negligible input from NGOs. Recent estimates are that between 300 and 500 million people inhabit the world's remaining rainforests. Yet, the TFAP largely ignores the rights and needs of local communities and indigenous forest dwellers and the critical role they play in the conservation of global resources. Recently, even the Director-General of the FAO ordered a review of TFAP process.

In its current form, we believe that the TFAP will greatly accelerate the present rates of deforestation. Through global climate change and the loss of biological diversity, the population in non-tropical-rainforest countries will also be affected by the activities launched under the TFAP umbrella.

While population pressures and poverty contribute to environmental degradation, they cannot be regarded as the root cause of deforestation in tropical countries, which has increased by as much as 90% over the past decade. By blaming forest dwellers for the ongoing destruction of tropical rainforests, TFAP fails to address important causes of current rates of deforestation, such as government policies in Third World nations and internationally financed large-scale development projects. A multi-sectoral review of national land use policies and a more policy-oriented approach will be required to effectively address the root causes of deforestation in tropical rainforest countries.

So far there has been virtually no public access to information on most TFAP programs for individual countries. As a result there has been little participation by NGOs and the concerned public in both recipient and donor countries. Recently, however, several environmental organizations, including the World Rainforest Movement (Malaysia), the Rainforest Information Center (Australia), the World Wildlife Fund International, Friends of the Earth, and the Environmental Defense Fund were able to obtain documentation on individual country TFAPs and related forestry projects for eleven countries in Africa, Asia, and Latin America. The case studies obtained by these organizations confirm that the overall thrust of national TFAPs is to promote the development of commercial forestry and industrial forest plantations.

World Bank forestry sector investments (whether included in the TFAP process or not), heavily favor commercial forest industries projects. These often are road construction and logging projects in primary forests; as one might expect, these projects often bring the greatest amount of economic return in the short run. In such cases, environmental considerations receive short shrift. World Bank forestry sector investments by type in 1988 were (U.S. $ millions):

forest industries: commercial logging and industrial tree plantations
$ 73 : 60.1%
conservation: maintenance of biodiversity and climatic stability
$ 20 : 16.7%
institutions: improved planning, research, training and extension services
$ 12 : 9.6%
forest in land use: tree planting, agroforestry, and watershed protection
$ 13 : 10.9%
fuelwood and energy: conservation, alternative fuels, new resources
$ 12 : 10.0%
$119.9 total.[1]

The Tropical Forest Action Plan currently involves 74 countries that among them contain 85% of the world's remaining tropical forests. Although only nine countries have completed the final planning phase and stand ready for project implementation, it is critical that Bank forestry sector projects that fund road construction or logging in closed primary tropical forest regions and/or involve a relocation of local people without their consultation and an adequate resettlement plan, do not proceed.

2. Recommendations.

An area of great concern to U.S. and foreign environmental organizations is the priority placed in the IDA Ninth Replenishment agreement document on increased IDA support for the Tropical Forestry Action Plan (TFAP), and on a tripling of IDA forestry sector lending between FY90 and FY92. In the agreement, donors "urged IDA to expand considerably its support for TFAP forestry sector reviews and to ensure IDA participation in reviews for those countries with major tropical forest resources."[2]

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[1]. "Review of International Cooperation in Tropical Forestry," 9th Session of Committee on Forest Development in the Tropics, Rome, Italy, 11-15 September 1989.

[2]. "International Development Association-- Additions to IDA Resources: Ninth Replenishment;" Washington, D.C.; January 1990.

Because of widespread recognition of substantive inadequacies and difficulties in the development and implementation of the Tropical Forestry Action Plan, we are opposed to increased or unconditional support for the Tropical Forestry Action Plan.

We urge the Committee to recommend a comprehensive review of the development and implementation of the Tropical Forestry Action Plan, chaired by the U.S. Executive Director to the World Bank, be undertaken and completed by January, 1991. This review should ensure that the TFAP process and project implementation have positive rather than deleterious environmental impacts, and should occur prior to financing of any TFAP projects with IDA funds. The U.S. Treasury should submit a report to Congress on the results of the review by March 31, 1991. Until this review is completed, we encourage the Committee t direct the U.S. Executive director to the World Bank to oppose all Tropical Forestry Action Plan and/or IDA forestry sector loans.

3. Guinea Case Study.

Nine IDA credits for forestry projects in Africa are or will be up for Bank consideration in 1990, and may serve to indicate what we may expect from future IDA Tropical Forestry Action Plan loans. IDA credits for Guinea, the Ivory Coast, the Central African Republic, Zimbabwe, Sudan, Cameroon, Kenya, the Congo and Gabon are under consideration; they will provide at least $310 million in credits.

Therefore, it is worthwhile here to summarize in depth the Guinea Forestry and Fisheries Management project, an IDA credit of $8 million which has already been approved by the IDA. This project reveals the environmental disregard intrinsic to a vast majority of World Bank forestry sector projects.[3]

Once covered by dense forest and woodland, Guinea's forest cover is now comprised of 80% tree savannah, which is generally grassland with scattered clumps of trees, usually of secondary growth. At least 65% of Guinea's original 8,013 sq. miles of tropical rainforests have already been deforested. Official forest reserves in Guinea comprise approximately 1 million hectares of land.

The two largest official reserves, the Diecke and Ziama reserves, are the only remaining reserves of primary rainforest in Guinea; they contain 90,000 and 59,000 hectares respectively. High population growth of 2.8% per year in Guinea has led to a generalized over-exploitation of the land, and to a growing demand for both fuelwood and agricultural land. Encroachment on forest reserves and pressure on open forests is due mainly to land needs for agriculture and grazing.

The Official World Bank description of the objectives of the forest management component of the Guinea Forestry and Fisheries Management project is as follows:

* institutional support.
* humid forest protection, management, and silviculture in the Diecke and Ziama forest reserves (106,000 hectares of which is still forested).
* dry forest management in Upper Guinea.

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[3]. "International Development Association Credit to the Republic of Guinea for a Forest and Fisheries Management Project;" A World Wildlife Fund Review; prepared by David Reed, Policy Director and Jennifer Smith, Program Officer, Multilateral Development Bank Program; November 1989.

Logging will be a large part of the "management and protection" of the humid forest reserves Diecke and Ziama. "With appropriate protection and management, two thirds of the remaining 106,000 hectares of forest could be used for timber production." [*] In addition, 75 km of roads will be built to serve protection, management, and silviculture, and logging tracks will be built by timber concessionaires where logging is permitted.

The project allows for the logging of up to one half of the last reserves of primeval forest in Guinea while only reforesting 11,500 hectares. The project does not provide any guarantees for sustainability of timber production. The project will build penetration roads around and into the reserves without providing any safeguards against encroachment and uncontrolled logging.

Basic environmental precautions were not completed prior to approval of the Guinea project loan. These include: a survey of natural resources and biological diversity; an environmental impact assessment of the forestry component, particularly of the major roads and logging tracks; a detailed socio-economic survey to identify current uses of the forest by local people and potential future pressures on the forest with and without logging tracks; and a management plan for the forests including a concession policy.

Finally, the project does not address the primary causes of deforestation identified by the Bank itself, namely villagers' needs for new agricultural and grazing land. The forestry component of the project focusses almost exclusively on tropical forests, including intact primeval forests, not on dry forests where deforestation appears to be a bigger problem. The financing of road construction and the opening of forests to selective logging will not arrest or mitigate current deforestation in Guinea; rather, both are likely to increase deforestation.

4. Role of U.S. Treasury

Congratulations are due to the U.S. Executive Director Coady for raising a series of cogent objections to they'd Guinea forestry loan and for convening a special session of World Bank directors to discuss the problems. This action stands in sharp contrast to the abdication of leadership by the Administration on matters of global warming and ozone shield depletion in recent international meetings and negotiations. In the category of tropical forest lending the Treasury Department has been the leader for protection and deserves commendation.

But it is time to step back and take a look at what is happening with multilateral bank lending in forestry. How long can we keep spending our time and effort keeping the World Bank from financing forest-destroying projects when we ought to be helping with positive actions. The Bank should be a leader in global reforestation. Even though World Bank President Conable announced the major reforestation initiative, he is running a ship he cannot control and his staff is producing one forest boondoggle after another.

The situation is absolutely critical. There is not a single developing country we know of whose forest cover is increasing.

There are many ways in which the Bank could help reforest areas with diverse species, but it is unwilling to invest in the kind of effort necessary to reverse the looming tropical forest catastrophe. The extractive reserves proposals are urgently in need of support and implementation.

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*. Guinea Staff Appraisal Report, p. 3.

CONCLUSION

It is time to rethink our strategies and to seek some way in which the multilateral banks can be made ameliorators rather than aggravators of global warming. As a first step, we urge this Committee to deliver an ultimatum to the World Bank. The ultimatum should state that radical change in the energy portfolio and in the forestry lending is a prerequisite for further United States support. Anything less than such an ultimatum, we regret to say, is not likely to achieve very much.

In summary, Friends of the Earth is not optimistic that the World Bank will take a strong leadership role on global warming. President Conable generally seems willing but is frustrated by the senior bureaucracy, and the same old projects keep coming out of the pipeline. This Committee needs to launch a new initiative to really shake up the Bank. You have our wholehearted support for such an initiative.

STATEMENT OF SENATOR ROBERT W. KASTEN

Senator LEAHY. I want to yield to Bob Kasten, but I am glad that you have put the map up there. We always focus on Brazil because that is usually the part that gets mentioned in the press. And it is good to remind all of us that this problem exists in virtually every part of the Earth.

Senator Kasten.

Senator KASTEN. Thank you very much. I would like to join you in welcoming this panel of witnesses.

We have been working with the Environmental Policy Institute, Mr. Chairman, since at least 1982, and their work has probably been as important as the work of any other governmental or non-governmental group that I have come in contact with in terms of their help, support, ideas, positions, effectiveness and honesty of their organization. The Natural Resource Defense Council and other groups have been part of your overall coalition, but you personally have donated the last 10 years of your life to this work. And I am happy that we are not sitting here arguing about whether there is a problem, and whether the Government ought to be involved.

And in general, what we have legislated over the past 3 or 4 years, frankly, should be all that is needed. We find ourselves, though, finding more and more places where something slips through. But we are all moving together, and I very much want to thank you for what you are doing with the Environmental Policy Institute.

This subcommittee has led the effort in the U.S. Congress to require that environmental management be a central component of our development assistance program. And for that I am pleased to have had the opportunity to work with Chairman Leahy who is deeply involved and interested in this, as is Senator Inouye, and all who have been chairman of this committee. We have been, I believe, a very effective group of people, in terms of directing these issues, and we will continue to do so.

We have insisted that U.S. policy seize every opportunity to implement sound environmental protection. And that is where we have reformed both our bilateral and our multilateral assistance programs.

In past years, this hearing has focused primarily on environmental reforms of the multilateral development banks. But today, I will focus on getting our own house in order.

I am concerned that we have not made use of significant opportunities to support environmentally sustainable development. We have called for institutional reforms at the MDB's that have not been fully implemented here. We do not have a solid career track for environmental experts in any of our developmental agencies. We have not made least-cost energy practices a priority in our assistance policies.

I am deeply concerned by the lack of enthusiasm and, many times, the foot dragging within our own development agencies on implementing resource management requirements that we have put into law.

This subcommittee simply will not tolerate this kind of reluctance. If we do not see a more aggressive implementation of these directives, we are going to be left with few alternatives other than to further earmark these accounts and further reduce discretion. None of us want to do these things, but if that is what it takes, I am prepared to write much more explicit and complex instructions to reach the goals that all of us share.

I think it is the responsibility of the Agency and the people in this audience to recognize that we will continue to legislate, we will continue to earmark, we will continue to work these programs until we are working not only with the letter of the law, but also the spirit of the law. I hope that we do not have to continue to, in effect, trap in different kinds of programs because they do not function properly on their own.

So Mr. Chairman, I look forward to working with you. And I look forward to hearing from other Members and our witnesses on these issues.

Senator LEAHY. Thank you. I thank you very much, Senator Kasten.

Dr. Blackwelder, let me say that I echo Senator Kasten's comments about you personally, and I applaud you for what you and your organization have done. And Mr. Prickett, you, too, sir, and what the NRDC has done.

I would hope that you would both take great pride in being praised by Senator Kasten in that way because Senator Kasten does not have to stand second to anybody in the U.S. Senate in these areas. He has pushed these initiatives through, he has fought for environmental concerns on the appropriations bill many times when it has been an uphill battle, and when I know for a fact that he has received a great deal of pressure to do otherwise, he has fought the point without slacking. And it makes my job a lot easier having had his track record and having his strong support here.

Senator KASTEN. Thank you, Mr. Chairman.

Senator LEAHY. Senator Lautenberg, before I go to questions, do you have a statement that you wanted to make?

Senator LAUTENBERG. No; I thank you very much, Mr. Chairman. I will wait my turn. I assume the testimony is as eloquent as you said it was.

Senator LEAHY. It was indeed. And we appreciate also Senator Lautenberg's efforts on the Environment Committee, and with his

experience in the various authorizing committees on such issues. We appreciate having you here in the appropriating committee.

COORDINATION OF U.S. GOVERNMENT EFFORTS

And with that, Mr. Bissell, I know that your duties include coordinating the environmental initiative at AID. How do the various agencies that are involved with international environmental matters allocate resources and coordinate? Is there one overall interagency mechanism, one bureau or anything that does that kind of coordination?

Mr. BISSELL. Coordination for us is important because you know, Mr. Chairman, there are several Federal agencies that are mandated to work internationally on the environment. Given the scarcity of resources, we want to make sure that there is coordination rather than duplication or, indeed, contradiction in our efforts.

There are several mechanisms for coordination. We have set up, for instance, a joint EPA/AID coordination committee that meets periodically. We also have, in specific sectors, coordination efforts that will reach not only Federal agencies, but some people outside, for example, in the renewable energy area, where we have had a standing committee for several years.

It seems to me that there are really two directions for coordination. One is the kind of standing operation where we know that between EPA and ourselves we have common policy and budget issues that come up where we need to work together. A most recent case, for instance, was in Eastern Europe where we are launching environmental initiatives on behalf of the administration. Careful discussions between EPA and ourselves have taken place to make sure that we were putting together a strategy that would make sense over the long term.

Senator LEAHY. But who takes the lead? Who makes the——

Mr. BISSELL. We actually do not have a lead in that context, because we recognize that we are both going to be involved, and we are both interested in coordinating. So we simply sit down together and make sure that we are talking.

We work together, both in the forestry area and the energy area, with other concerned departments to make sure that we are not working at cross purposes.

U.S. PARTICIPATION IN THE MONTREAL PROTOCOL

Senator LEAHY. Let me just use an example so I can figure out just how decisions are made. Recently, at the International Conference on the Montreal Protocol, which I referred to in my opening statement, the U.S. delegates were instructed to refuse to participate in the new fund to help Third World nations comply with the Montreal Protocol. It effectively scuttled the conference. Was AID consulted on that decision or involved in making the decision to have the United States pull the rug out from under the conference?

Mr. BISSELL. Among all of the international environmental issues, the CFC issue, the Montreal Protocol issue, is probably the one where AID plays the smallest role. It is one where the technical expertise really lies at EPA. EPA takes the lead and has been

involved in the negotiations with, as you know, other parts of the U.S. Government, including the White House, on how to resolve that issue.

GLOBAL WARMING

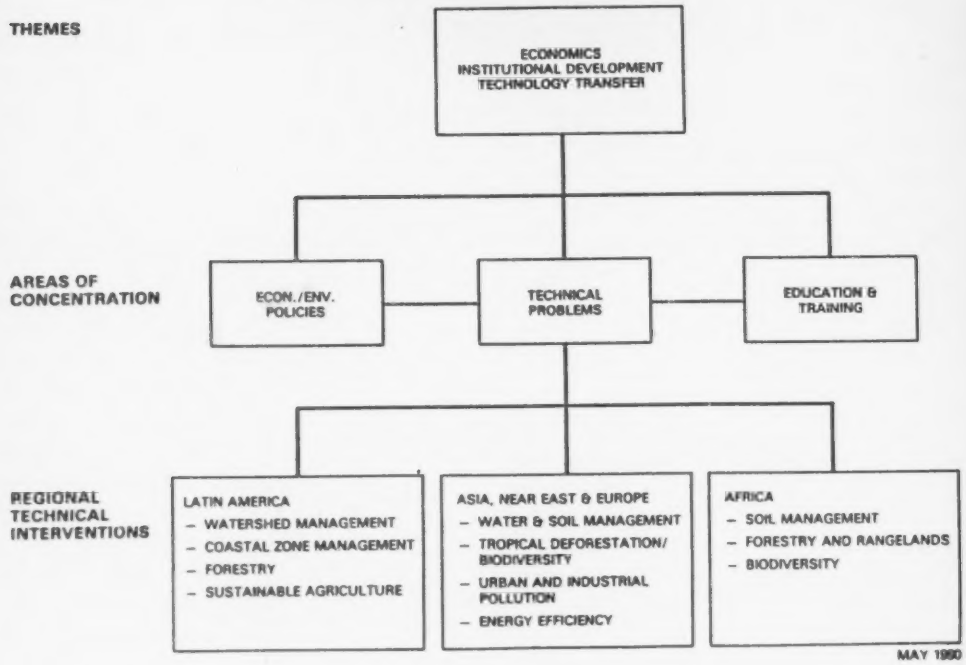
Senator LEAHY. Well, I am still trying to figure out just exactly where AID is apt to play a role and how. What does AID's leadership think about global warming? I mean, if AID's leadership is really going to affect these meetings, it has to have an established policy of whether global warming is a threat to the environment or should we still just research it, study it?

Mr. BISSELL. We have a very clear policy on global climate change. We have a "no-regrets policy." We have a variety of programs that are under way, as you can see from the charts, that are very large scale, in both the forestry and the energy areas which have effects upon global warming. We are rapidly expanding these programs. However the research comes out, it is good development to put resources and effort into the areas of natural resources, forestry, and energy for the purposes of development. And, indeed, if the research ends up showing that global climate change is a major threat to the international environment, then we will simply have a head start on the part of AID in working with a range of developing countries.

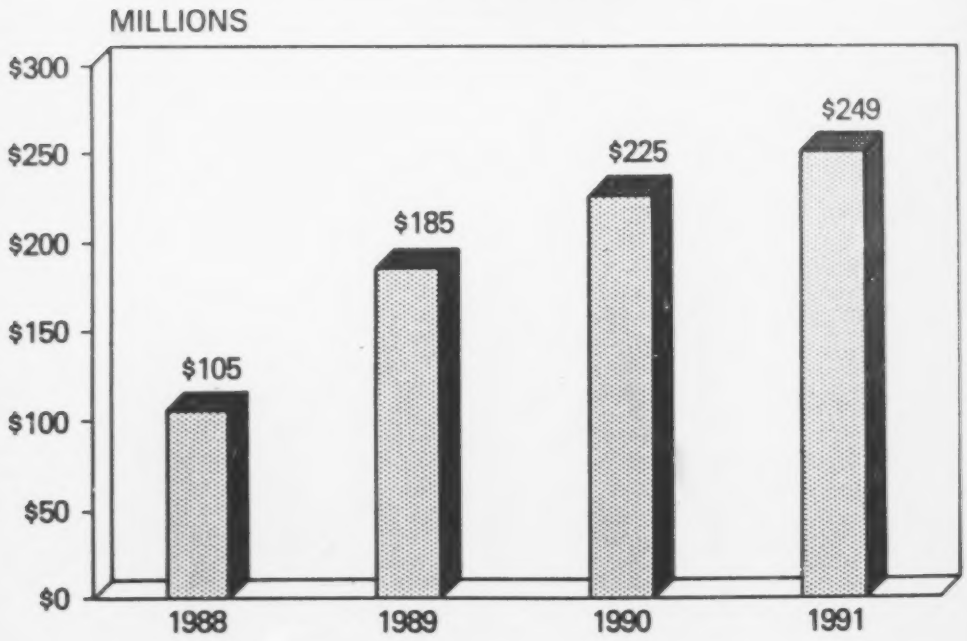
So we are happy to be already working. We think it makes sense to be out there implementing efforts, to have programs under way, even as there is a strong effort in the scientific community to identify exactly what the scale of that threat may be to the global environment.

[The charts follow:]

A.I.D. ENVIRONMENT INITIATIVE

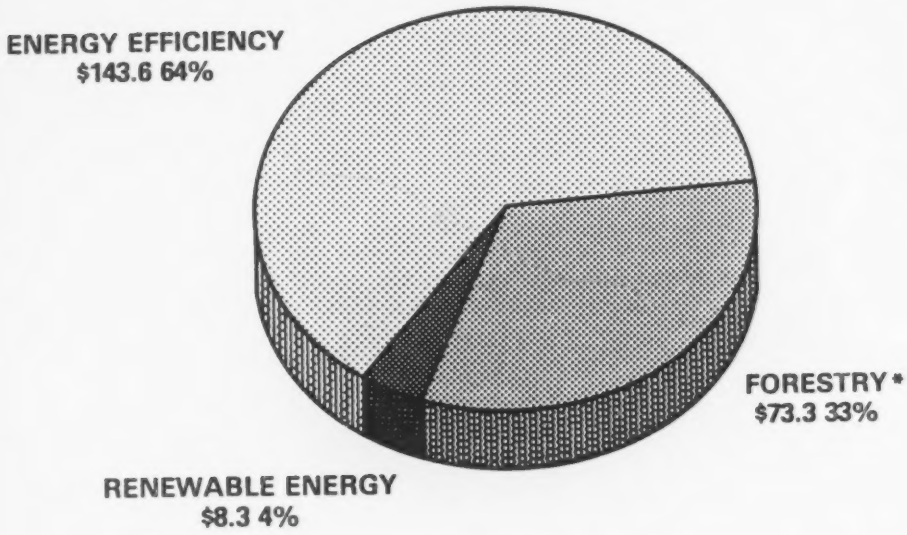


A.I.D. CLIMATE CHANGE ACTIVITIES 1988-1991



A.I.D. CLIMATE CHANGE ACTIVITIES FY 1990

TOTAL = $225 MILLION



*INCLUDES REFORESTATION AND FUELWOOD ACTIVITIES

LONG-TERM PROJECTS

Senator LEAHY. Are these long-term projects?

Mr. BISSELL. We are certainly in for the long term. These programs I am speaking of are not short-term interventions. They are long-term projects. Land use issues, reforestation, natural resources, and energy are all long-term investments. And we are working with a growing number of governments in order to ensure that they establish what you and I would consider responsible policies and begin investing money in areas that will pay off initially in those specific sectors and, if it turns out to be appropriate, in affecting the global climate, as well.

AID AND THE ENVIRONMENT

Senator LEAHY. In March of this year, Senator Kasten and I wrote to then Acting Administrator Edelman about reports that AID's Asia-Near East Bureau was not implementing our global warming initiative. We received a letter reassuring us we had nothing to worry about. We then learned about an internal Asia-Near East memorandum that indicates the bureau simply refuses to agree that there is an extricable linkage between economic growth and the environment. The memorandum, in fact, flatly said AID is not an environmental agency.

[The information follows:]

LETTER FROM SENATOR LEAHY AND SENATOR KASTEN

Mr. Mark Edelman
Acting Administrator
Agency for International Development
320 Twenty First St., N.W.
Washington, D.C. 20523

March 1, 1990

Dear Mr. Edelman:

We are gravely concerned by persistent reports that AID has failed to implement environmental directives laid down in the F.Y. '90 Appropriations law. These reports indicate that the Asia and Near East Bureau specifically has prevented actions that would promote the protection of biodiversity and resource management.

The most important reforms in U.S. development assistance programs enacted in recent years have been 1) the elevation of environmental and natural resource management to equal stature with economic criteria, and 2) the creation of a significant fund for the management and enhancement of biodiversity.

The Committee will not tolerate any reduction in priority given to environmental management. A failure to aggressively pursue these directives will be viewed as a failure by the Agency in accomplishing its mission.

We have attempted to be sensitive to the Agency's concerns about earmarks. However, a continued lack of good faith and compliance on its part will provide a compelling case for additional earmarks in this year's appropriations language.

We expect the Agency to immediately take action to address these serious concerns. Furthermore, the Agency should prepare an explanation of how these policies are being implemented. This report should specifically identify what actions the Asia and Near East Bureau has taken this fiscal year to implement environmental management and biological diversity programs. The report should also detail any actions deferred by that Bureau, and initiatives that are currently under consideration. The report should be country specific.

It is imperative that this information be transmitted as soon as possible. We expect a full response from the Agency by March 15th. This will be a principle focus of this year's oversight action by the Committee.

Best regards,

Patrick J. Leahy

Robert W. Kasten, Jr.

LETTER FROM ACTING AID ADMINISTRATOR MARK EDELMAN

The Honorable Patrick J. Leahy
Chairman
Subcommittee on Foreign Operations
Committee on Appropriations
United States Senate
Washington, D.C. 20510

March 19, 1990

Dear Mr. Chairman:

Thank you for your letter of March 1, 1990, which the Agency for International Development (A.I.D.) did not receive until March 8, 1990. I would like to assure you that the Bureau for Asia, Near East and Europe (ANE) is indeed implementing the environmental directives set forth in the FY 90 Appropriations legislation. The Bureau has long been a leader in environmental and energy programming in the Agency. As the new projects planned for FY 90 and FY 91 demonstrate, it will continue to emphasize these important areas in the future.

Specifically, in this fiscal year A.I.D. anticipates that new environment and natural resource management programs will be initiated in the Philippines, Indonesia, and Sri Lanka, authorized at a total of $158.5 million for the life of these projects. Of this amount, approximately $30 million is allocated for conservation of biological diversity. The largest portion of this amount is planned for a debt swap in the Philippines. Counting allocations from both new and ongoing projects, I anticipate that the ANE Bureau will obligate over $11 million for biological diversity activities in FY 90, an amount exceeding the Congressional earmark of $10 million for the Agency as a whole.

Initiatives in energy and forestry that respond to the legislation on the potential for global climate change are planned in the key countries of Poland, India and Indonesia, with funding of over $20 million in FY 90. Overall, the ANE Bureau is planning approximately $140 million for programs in FY 90 that enhance energy efficiency, least-cost energy planning, commercialization of renewables and clean energy technologies.

In Eastern Europe, which has some of the most serious pollution problems in the world, A.I.D.'s cooperative programs with the Environmental Protection Agency and the Department of Energy amount to approximately $13 million this year. I believe, however, that a much more comprehensive environmental program is needed. A.I.D. will be working on this in the near future.

The one new natural resources program that was deferred this year was a watershed management project in Morocco. The reason for that postponement was to permit additional analytical work to assure that the key technical and policy issues constraining sound watershed management are addressed. Three million dollars are available this year for that work, pending the outcome of discussions with the Government of Morocco.

The only other adjustments being made are in Thailand where a restructuring of the very complex Natural Resources Management program (MANRES), which started in FY 88, is underway to simplify its implementation. Key biological diversity activities being implemented by the U.S. National Park Service and World Wildlife Fund-U.S. are, however, continuing. A.I.D. anticipates that environmental problems will remain an important element of the Agency's future program in Thailand.

The ANE Bureau views economic growth, democratic institutions and sound management of natural resources, all of the highest priority to Congress and A.I.D. alike, as complementary rather than conflicting priorities. In order to set priorities for investment, the Bureau will focus on those problem areas where these interests converge.

It is important to note that the ANE Bureau has developed a regional strategy for environment and natural resources, which is now being reviewed internally. Prior to its adoption, A.I.D. will seek comments from the Congress and the U.S. environmental community. Important elements of the strategy focus on reform of economic and sectoral policies and market failures that contribute to environmental degradation, institutional weaknesses, and lack of public participation in the decision-making and in the management of natural resources.

For example, policies in Southeast Asian countries decrease the value of their forest resources and are often unenforceable, thereby encouraging waste, illegal harvesting, and less conservation. Reforms, such as longer and competitive leases for logging concessions and land titling to local communities or landless farmers, are needed. This would promote investments in forest regeneration and conservation and encourage sustainable harvesting and efficient processing by the private sector and local communities, thus reducing pressure on reserves. The natural resources projects now being designed for Indonesia and the Philippines will address these and other policy failures, as well as the institutional and technical constraints that need solutions so that policy reforms can work. A.I.D. looks forward to sharing the draft strategy with you and other interested members of Congress in the near future.

I hope this letter will reassure you about the intentions of the Agency and the ANE Bureau in this important matter. A.I.D. would welcome the opportunity to meet with you or your staff to discuss any specific questions or problems that may remain. Within the next few days, I will be sending you a summary report of ANE's current and planned funding for environmental and natural resource activities.

If I can provide you with further information, please let me know.

Sincerely,

Mark

Mark L. Edelman
Acting Administrator

GLOBAL WARMING INITIATIVE

Senator LEAHY. Now, I bring this up because it shows why we are concerned that there is less than real compliance at AID with our global warming initiative and why I want to underscore that this is not just a 1-year, one-budget matter. We are in it for the long term.

How do you explain the memorandum? Is it a case where AID is looking at the law and then ignoring it?

Mr. BISSELL. Mr. Chairman, I have not seen the memorandum you are referring to, but I can assure you the sentiments you are saying the memorandum expressed are not Agency policy. The

Agency's policy is that the environment and economic development are indeed inextricably linked. And overall in the Agency, I think that you will see a consistent pattern of implementing efforts to make sure that we show that they are linked.

Senator LEAHY. What if you have the question of economic development where somebody is talking about efforts to conserve energy and to stop deforestation at the same time? Are they inextricably linked or are they in a collision course under those circumstances?

Mr. BISSELL. AID has done considerable work recently with the Government of India, which is looking over the next 10 years at a 100,000-megawatt energy construction program, which is the most ambitious 10-year energy construction program in the history of any country.

We are working closely in energy efficiency with the Indians in order to help them identify opportunities for efficiency, to the extent possible. And right now they are looking at 35 percent efficiencies in the base of cogeneration and more efficient use of coal that will pay for itself many, many times over. In that case, what we can do in terms of working within the energy field is to reduce their requirements by tens of billions of dollars of investment in the energy sector.

They are very grateful. And I do not see any collision course at all. What that means is they will have resources freed up from the energy sector, which they thought they were going to have to commit, to put into other areas to get their economy going.

Senator LEAHY. My time is up. On the next go round I will either go over the particular memorandum with you or I will submit it to you with some specific questions. I also will ask Mr. Prickett and Dr. Blackwelder just what they feel would happen if the global warming initiative that Senator Kasten and I put together was fully implemented.

I yield to Senator Kasten.

Senator KASTEN. Thank you, Mr. Chairman.

First of all, Mr. Bissell, I have had an opportunity to review your prepared testimony.

AFRICAN ELEPHANTS

Let me discuss one particular project, the elephant project, that we tried to work on last year, because I think it shows some of the difficulties. We in this subcommittee earmarked $2 million for the protection of the African elephant. We intended that these funds be used to significantly enhance and increase our effort—the U.S. effort, to manage this key resource. I think it is important to emphasize that we have perhaps 10 years to protect this animal. Otherwise, except for a few isolated pockets, African elephants are likely to be extinct in the wild.

I am disappointed that AID elephant funds have not gone into a series of biologically defensible programs. Instead, they have been used to, in effect, retread or relabel projects that were already in the pipeline. Ghana is believed to have less than 200 elephants, yet $500,000 is planned for elephants there. Is that really an efficient step?

There is nothing wrong with any of the individual work that you did. You helped the Peace Corps in Burundi and you did some things with the African Wildlife Foundation, but you missed the kind of direct impact that we were hoping to achieve with this overall project.

We think that some of the fish and wildlife targets would have been a better use of those funds.

Now, did you seek the advice and the input of the U.S. wildlife agencies prior to or after developing your overall elephant protection program? And did you consult any African agencies prior to or after? My understanding is that you did not. If I am wrong in that, I want you to correct me.

But just start with how you decided to spend our $2 million and what consultation you had through either U.S. wildlife agencies or foreign African governments?

Mr. BISSELL. Actually, Senator, you may know more about this than I do. But let me just tell you what I have been told on this question. My understanding is that, first of all, the Ghana project does not count toward the $2 million--just to clarify that, the Ghana project, in fact, is fundamentally not an elephant project. It happens to be a secondary purpose of it, which is——

Senator KASTEN. Well, I am pleased with that answer. Because we thought it did; it is on the list under the elephant programs, so maybe it is miscategorized. But that means that we have a bigger chunk of money left than we might have because a lot of money was spent there.

Mr. BISSELL. Yes, sir; second, I honestly do not know who was consulted in this program. As you know, it is implemented by the Africa Bureau, and I am not sure exactly what levels of people, either here in Washington or in the field, they actually spoke with.

As I understand it, they intended basically to implement the spirit, as well as the letter of the amendment in the sense of committing well over $2 million this year to elephant protection. And I think the number comes to, by their total, some $12 million in a variety of projects in Tanzania, Kenya, Zaire, Uganda, and so forth. So that they were attempting to spread out the money and to be able to affect as many elephant populations as possible with that sum, which is considerably more than $2 million.

In terms of actual consultation, I can certainly get back to you on that. I would just have to check and find out with whom they did talk in the process of handling this.

[The information follows:]

AFRICAN ELEPHANTS

AID and the U.S. Fish and Wildlife Service are members of the U.S. Federal Interagency Advisory Committee on the African Elephant. We coordinate regularly with the U.S. Fish and Wildlife Service as part of this group. It should be noted that AID's Africa Bureau discussed elephant conservation issues with the U.S. Fish and Wildlife Service before the elephant earmark and during the development of our elephant earmark activities. More recently, we have discussed opportunities with the U.S. Fish and Wildlife Service for collaboration on specific projects in fiscal year 1991.

We also work with the African Elephant Conservation Coordinating Group [AECCG] and make use of their African Elephant Action Plan. The U.S. Fish and Wildlife Service and seven other international wildlife organizations—including the World Wildlife Fund—are members of this group. The AECCG Action Plan provides

information regarding priority elephant populations and associated protected areas. Our elephant conservation activities are consistent with the AECCG Action Plan. In addition, the Africa Bureau uses the U.S. Fish and Wildlife Service's African Elephant Strategy Plan as a source of information regarding important elephant populations and protected areas.

The Africa Bureau implements its biodiversity program including elephant conservation activities, primarily through private voluntary organizations [PVO's] and national African wildlife departments which have a long history of expertise in elephant conservation and management. During the development of fiscal year 1990 elephant-related activities, technical experts from the World Wildlife Fund, African Wildlife Foundation, and Wildlife Conservation International—a division of the New York Zoological Society—were consulted on a regular basis.

AID is a decentralized organization. Therefore, most of our projects are developed collaboratively in the field with appropriate outside agencies, in this case PVO biologists stationed in developing countries and national African wildlife department personnel. AID's policy is to develop projects with the involvement and approval of host government officials.

The Africa Bureau has a biodiversity strategy which provides our program with a clear focus and enables us to measure impact. To implement our biodiversity strategy, we have established a process for identifying opportunities in the field, technically reviewing proposed activities, funding attractive projects and implementing them through our field missions.

As part of our planning process, we undertake natural resources country assessments to: (1) identify biologically rich habitats; (2) identify promising field interventions; and (3) develop collaborative PVO projects within a geographical region of focus. Most of the projects we support are directed at critically important wildlife populations, especially elephants and primates.

Our missions implement biodiversity projects as part of their bilateral programs. Many of these projects are designed to have long-term positive impacts on the African elephant. For example, the fiscal year 1990 Tanzania wildlife management and planning project is one of the activities utilizing the fiscal year 1990 $2 million elephant earmark. The project is being implemented by the African Wildlife Foundation.

In addition to bilateral projects, each year our missions encourage the international community to submit project proposals for funding under the Bureau's biodiversity program. Those proposed activities that would have a positive impact on the African elephant received priority consideration.

The Africa Bureau received a number of African elephant-related biodiversity proposals in fiscal year 1990. Our Niger and Cameroon missions received proposals for activities which were consistent with both our biodiversity strategy and the AECCG/U.S. Fish and Wildlife Service African Elephant Strategy Plan priorities. These proposals were later funded.

The Ghana project to which you referred will establish a national park which will serve as a habitat for a small number of elephants. Even if this activity—$500,000—were not counted among our elephant-related projects, the level of fiscal year 1990 Africa Bureau elephant conservation activities would still be about $12 million.

ANTIPOACHING PROGRAMS

Senator KASTEN. I have a series of questions that I will submit to you for the record, but let me just ask one in the hope that maybe you can check this out. What specific antipoaching programs are you supporting with this $2 million?

Mr. BISSELL. I would have to get back to you on that as well.

Senator KASTEN. We were hoping for money that would come on top of other money for additional impact. Instead, ongoing programs were funded with a little bit more money.

Mr. BISSELL. I think that is terribly important, Senator, and I take your advice and will certainly convey that to those in the Agency who have been involved in this program much more closely than I have, because we have no intention, either with regard to elephants or any other area of environmental activity, to be in the repackaging business. When you mean the program is meant to be

put in place or to be given a new dimension, then we would want to carry that out.

Senator KASTEN. Well, I think in the process of working through these half a dozen or eight questions we will be able to solve some of this. We will just submit them for the record.

[The information follows:]

ANTIPOACHING ACTIVITIES

The Africa Bureau provided $3.9 million in fiscal year 1990 to African countries for field equipment in support of antipoaching activities. This includes $1.25 million for the Kenya Wildlife Service and a total of $2.65 million for Cameroon, Niger, Tanzania, Zimbabwe, Zambia, Botswana, and Uganda.

We are also coordinating with other international organizations to address antipoaching and other shorter-term wildlife management interventions.

ENERGY EFFICIENT TECHNOLOGIES

Senator KASTEN. Let me just segue to energy, specifically energy efficiency, where there are a number of new technologies. Some technologies are not necessarily new to us, but they are new to developing nations. And a number of these different technologies should be utilized as a portion of our energy assistance programs. Our witnesses touched on some of this in regard to our overall look at energy efficiency. One potential, for example, is the expanded use of more efficient technologies like combined cycle power. How does AID view these kinds of technologies? Does the Agency feel that these technologies have particular value as cost-efficient power sources? What kind of energy-efficiency criteria have you added to your selection process since the adoption of last year's bill?

Mr. BISSELL. First of all, we are very interested in energy-efficiency technologies, particularly some of those you mentioned. In the case that I cited in India, the combined fuel cycle issue is one where it plays a central role. And we think that there are tremendous payoffs to be seen in that kind of situation.

In terms of our criteria for selection, it is a question of picking those countries—and indeed, I think every country is a candidate for these energy-efficient technologies—where we are able to leverage with our assistance the greatest impact on their long-term investment planning. This is why I particularly like countries that have ambitious energy investment plans upcoming, as in India or elsewhere.

Second, we know that the United States can bring, particularly from the private sector, technology that is particularly appropriate. So the Office of Energy in AID, for instance, works quite closely with industry in the United States to know where it is that we have the kinds of new, or possibly old but particularly appropriate for developing countries, technologies that can improve efficiency and the range of investments.

For instance, in the coal industry, we have good technologies that allow much cleaner operations, much more efficient operations, in producing power. And we find that in working with developing countries, there is a market for them. So it is both; it is the situation in the field where we can operate to the greatest ad-

vantage and also where we have something to contribute in terms of U.S. thinking.

Senator KASTEN. Mr. Chairman, my time has expired, but I would like to ask Brent Blackwelder to reply to the same question so that it is on the record also.

You heard my question and his response, and I agree with much of what he said. Is there anything that you would like to add, Dr. Blackwelder?

Dr. BLACKWELDER. Well, I would just briefly comment, I think we are still looking at a disparity in the dollar commitments to efficiency as compared to the other kinds of energy investments made both bilaterally and multilaterally. It should be, in our judgment, from a banker's perspective, the balance should be totally the other way. That is, most of the investments ought to go into efficiency and conservation. They have the quickest pay back; they involve the least social and environmental costs. But in fact, it is the other way around. As I was pointing out, the 8-year average for the World Bank is 96 percent of its money goes into the big projects and only 4 percent goes into efficiency and conservation, these new technologies which are so cost effective.

Senator KASTEN. Thank you, Mr. Chairman.

Senator LEAHY. Thank you.

Dr. BLACKWELDER. Glenn Prickett might want to add something more detailed on AID.

Mr. PRICKETT. It is true at AID that there are some shining lights in individual countries, and I would agree that India is a good example, but that is really largely due to the initiatives of a few individuals here in Washington. Other key countries that the Agency is starting to identify, you do not have much of an efficiency plan at all. Indonesia is probably a terrific example that was just mentioned. The President himself of Indonesia has now converted to energy efficiency, and they are waging high level media campaigns about energy efficiency. AID does not have any energy efficiency projects there. There is nothing laid out in the fiscal year 1991 congressional presentation.

Poland similarly has great needs for improving end-use efficiency there, but the AID money for Poland is all going through to DOE to do clean coal programs which, although important, will come no where near satisfying the need.

So I would say that much of it comes back to the need for staff at AID, especially in the missions. Staff trained in energy, trained to recognize the need for energy-efficiency programs, they currently are not there. So I would hope that in this commitment to hire new environment staff over the years, 20 a year was the figure mentioned, that emphasis would be placed on trained staff in energy and energy efficiency.

Senator LEAHY. Senator Lautenberg?

Senator LAUTENBERG. Thank you, Mr. Chairman.

U.S. LEADERSHIP ON THE ENVIRONMENT

It is an interesting event that takes place when you, Mr. Chairman, coming from a State so conscious of environmental protection, chair a subcommittee on Foreign Operations. And the combi-

nation of the two is almost as interwoven as our general foreign policy views on so many political and functional issues. And this is among the most important issues, and obviously Senator Kasten shares your point of view on the environmental issues.

I respect and appreciate greatly the leadership that you have provided and that you continue to provide. And your concerns, I read your statements—you and I have talked many times—about what the responsibility of leadership is for our country. And it goes, perhaps, more in the direction of joining again on the battle against pollution, contamination of our world, sometimes even more effectively than it does with some of the other programs including military alliances and so forth.

I was struck by the fact Mr. Bissell says in his second paragraph, "Although long-term effects of environment degradation are often global, the causes are local." And when we look at the policy coming from down the street, and I see what is happening in situation after situation. Now, again, I serve on the Environment and Public Works Committee, and I am chairman of the Superfund, Oceans and Water Protection Subcommittee, and I hear about our unwillingness to participate to the tune of a paltry, you will forgive me, $8 million. Not that $8 million is insignificant, but compared to the environmental problems that we have there—and the leadership that that denial of the $8 million per year participation for 3 years shows and the battles that we have had on the protocol, the World Bank Green Program.

And I have come to the conclusion that the policy right now with the administration is determined more by outside the President's office than within it. I think the President must often refer the questions to his trusted aide, who is "just say no, no" in this case. That has been difficult because I have also worked on the clean air bill, and I have been accused of being an extremist on trying to save this planet of ours for future generations. Perhaps so.

But I appreciate the interest in both of my senior colleagues on this subcommittee in terms of trying to get to the issues and try to be of serious help to those countries that are trying. I just got back from Poland and Russia and Eastern Europe, and the environmental degradation one sees in Poland is almost beyond comprehension. You almost have to be there to see it. We have all read the stories. I watched the swans in the Black Sea come up with a ring around their neck because the surface pollution is so intense that as they dive for food they come up wearing this ugly collar. And you see it in the degradation of statues and the inability to breath the air.

MONTREAL PROTOCOL

Mr. Bissell, I am troubled, as you can tell, by the U.S. opposition of creating a financing mechanism to enable developing countries to meet the requirements of the Montreal Protocol, reduce the emission of CFC's, and we were the only Nation opposing the creation of this funding mechanism. Now, how important is it that nations like China, India, and Brazil join in the Montreal Protocol?

Mr. BISSELL. I guess my sense is that, over the long haul, it will matter a great deal. There is clearly, in one area of CFC use, that——

Senator LAUTENBERG. Well, it is fair to say these countries are going to be perhaps the largest future source for emissions of ozone-depleting chemicals. Is that not true?

Mr. BISSELL. Well, what I was going to say was that in the area of refrigeration, there are manufacturing facilities in countries such as Egypt, India, and China today where there is particularly significant production. There is, of course, fairly significant consumption of CFC's as well for the coolant in those systems. So over the long haul, one assumes that there will have to be a replacement of those CFC's by substitutes that are currently being developed by DuPont and other companies that will be available, that they will be introduced over time as they become better——

Senator LAUTENBERG. Is it reasonable for us to say, well wait, do not move ahead with those things. We are developing, and we will not even do the minimal funding necessary to encourage these countries to sign up. Do you not think that is a mixed message, or at least a very negative message?

Mr. BISSELL. It is certainly a mixed message, Senator.

Senator LAUTENBERG. Mixed is kind.

HEALTH AND ENVIRONMENTAL IMPACT OF OZONE DEPLETION

Do you have an estimate of the costs of health and environmental impacts within our country from ozone depletion if these countries continue to emit these ozone-depleting materials?

Mr. BISSELL. We do not have them at AID. We would look to EPA to provide those numbers for us, sir.

Senator LAUTENBERG. Well, is it likely the costs are going to be in excess of the $8 million each year that we would have to pay under the proposed funding mechanism?

Mr. BISSELL. I honestly have not seen any number, but it sounds reasonable that it would be in excess, yes.

U.S. COMMITMENT TO THE ENVIRONMENT

Senator LAUTENBERG. What do you think is the message our action sends to other countries about our commitment to the environment? What do you think, Mr. Prickett and Dr. Blackwelder?

Mr. PRICKETT. I would back up to your last question. The numbers that have come out of EPA about costs, if you look at an extrapolation of the current trend of destruction of the ozone layer, on orders of magnitude you are talking in the tens of millions of cancers developed in the United States alone of people born now and born up to the year 2075, 5 million or 6 million of those would probably be fatal cancers. Damage to crops from ultraviolet penetration would yield damages in the order of billions to American agriculture, clearly in excess of the $25 million to $30 million over 3 years for the fund.

Dr. BLACKWELDER. I would also make comments, Senator Lautenberg, with the user fee on chlorofluorocarbons passed by the Congress last year, we should have several billion dollars coming in.

So, out of several billion from this user fee, it is certainly reasonable to suggest a few tens of millions.

Senator LAUTENBERG. Well, what kind of a message does it send?

Dr. BLACKWELDER. I could say on behalf of Friends of the Earth, which I might mention, has merged with the Environmental Policy Institute which I helped start, we have affiliates in 37 countries and they had been looking to the United States for the global leadership role. And now I am getting all sorts of messages of huge disappointment, that the United States, far from being a leader has now been taking the most antienvironment position of any of the countries gathered at meetings in Geneva or in Scandinavia. So it is a shocking reversal.

Mr. PRICKETT. I would have to underscore that, particularly on the ozone issue. The United States has been a leader negotiating the Montreal protocol. Our officials in the Environmental Protection Agency had been leaders in negotiating these strengthening amendments. The White House callously disregarded the advice of EPA and State Department officials in opposing this amendment. It is foolhardiness at the highest levels.

ENVIRONMENTAL IMPACT STATEMENTS

Senator LAUTENBERG. Let me talk for a moment about NEPA. I introduced a bill, S. 1089, which would require the United States to prepare environmental impact statements on American projects located outside the country. It would also require the United States to ensure that the EIS's for projects in the United States address extraterritorial effects, including any impacts on global warming and ozone depletion.

Does AID prepare environmental impact statements for its projects?

Mr. BISSELL. We do not require environmental impact statements under NEPA. But AID has formal environmental procedures, based on the important substantive features of NEPA, which we use to assess the environmental impact of each project before it is approved, yes. All of them.

Senator LAUTENBERG. Why would it not make sense then to prepare a statement?

Mr. BISSELL. Under the terms of the NEPA, the environmental impact statement was drawn up essentially for American social and political institutions. It has various requirements which we think procedurally would be offensive to other sovereign states and also would slow down significantly the ongoing development work of AID without a great deal of value added environmentally.

We have in place an environmental system, a comprehensive review system, that has been in place now almost a decade. We have constantly improved that. We think it is highly appropriate for developing countries, which is why we appreciate the spirit of your suggestion, but I am convinced that strict application of the NEPA requirements is not feasible or appropriate in most countries in which we work.

Senator LAUTENBERG. Has NEPA been of any help in environmental decisionmaking to AID?

Mr. BISSELL. Not directly. We have certainly drawn upon it in the sense that it is a useful methodology. It is helpful to all of us interested in making sure that environmental criteria are taken into account in our activities. But in the literal sense, no.

Senator LAUTENBERG. Well, we are talking about national environmental policy. Why should the U.S. agencies funding or participating in projects outside the United States not comply with our national environmental policy?

Mr. BISSELL. Well, as I say, I think in every sense of the spirit of it we do. It is in the letter of it that we have had difficulty.

Senator LAUTENBERG. It is in the implementation. You agree with the spirit, you just do not agree with the implementation.

Mr. BISSELL. No; I think we have implemented it as well. But NEPA has a very literal set of procedures which, as I say, if applied extraterritorially, conflict with the legal and political systems of foreign countries which could consider these elements as intruding on their sovereign prerogatives. The procedures in place now are both sensitive to foreign governments and effective in achieving a comprehensive review of the environmental consequences of our actions. In addition, NEPA has procedures which, when working with foreign governments, particularly rather inefficient foreign governments, would cause a process that Congress frequently complains is already slow, to be even slower than it is now.

Senator LAUTENBERG. Would you like to comment?

Mr. PRICKETT. Yes; I would like to comment on the issue of NEPA abroad. As you may know, Senator, Natural Resources Defense Council has probably been active on this issue of NEPA abroad longer than any other environmental group in the country, starting back very soon after NEPA was passed, when we heard those same arguments about slowing progress from domestic agencies. Now, it has been clear over time that that has not been the case domestically, in general, and that in fact, many of the domestic agencies are thankful for having such a valuable planning tool in place.

It has always been the position of NRDC and others in the environmental community that NEPA should apply with full force to our actions abroad. And in fact, AID now has one of the strongest environmental assessment policies of agencies acting overseas precisely because NRDC and others brought a lawsuit on that issue back in the early 1970's. And in fact, if you read AID's policies in detail, there are times at which preparation of a full EIS is required: when there are environmental impacts on the global commons outside the jurisdiction of any one country or in some cases, back impacts on the United States.

The courts, unfortunately, have declined ever to rule on the question of the applicability of NEPA abroad. What we have is a very weak Executive order that was released at the end of the Carter years, basically gutting the requirements for NEPA among U.S. agencies. So we have always been strongly convinced that NEPA should apply abroad and are very grateful for the efforts of you, Senator, in making that point.

Senator LAUTENBERG. Mr. Chairman, if I might, I have just a minute more on the multilateral banks. Last year the Congress passed an amendment that I sponsored to prohibit the United

States from voting in favor of multilateral bank projects unless an environmental impact document had been prepared and made available to the public.

What are the multilateral banks, can you tell me, doing to assure that the environmental impacts of their projects are assessed and are made available to the public? Anyone want to comment on that?

Dr. Blackwelder.

Dr. BLACKWELDER. The last year the World Bank put into place what could be termed a weakened environmental assessment process. But the fundamental flaw is availability of such a document to public—to interested agencies. One of the strengths of our law is that these documents are shared in draft form with other agencies that have relevant expertise, an in-house kind of assessment not available for the public, not available to agencies whose expertise is essentially not going to be worth that much. And so there is a long way to go.

Senator LAUTENBERG. Do they routinely require preparation of environmental documents?

Dr. BLACKWELDER. No; it is brand new. It is a brand new process. You do not see these from most of the projects to date.

Mr. PRICKETT. I will add that the Bank is only beginning to implement this policy. In fact, this month is the first time in which its list of upcoming projects has included a description of whether or not an environmental assessment will be required.

I will agree with Brent that the real flaw now is the availability of the documents. And thanks and good measure to your legislation. It is hard to tell for sure, but we feel that that legislation was critical in getting the policy in place at the Bank. It was a very hard-fought battle there by environmental professionals in the Bank to get the policy in place. Also, your legislation is responsible for language in the report on the ADDEN 9 replenishment, in which the Bank does agree, at least in this somewhat nonofficial report, to make those assessments available. So that we will need strong oversight from the subcommittee in making sure that that happens.

Senator LAUTENBERG. We will do that.

Would you agree that the environmental assessment process is an essential component of our efforts to ensure that only environmentally responsible project are funded?

Dr. BLACKWELDER. I think it is a cornerstone of any kind of assistance. It ensures the kind of rational consideration of alternatives, looking at both the short- and long-range commitment of resources, and the involvement of all bodies with relevant expertise. It is the best policy that we have going. And it should, I might add, as you were talking earlier about AID's implementation of this, it is important that other agencies, such as the Bureau of Reclamation, which have had activities abroad comply with such a law because the Bureau of Reclamation was assisting China in trying to go ahead with the world's largest single dam project on the Yangtze River, and refused, categorically, to file any environmental impact study or assessment of what it was doing.

Senator LAUTENBERG. Your comments are very helpful.

What do you think, Mr. Bissell, on the question of the essentiality of environmental impact documentation?

Mr. BISSELL. I think it is very important and one of the reasons that, just conceptually, we appreciate having it in place is that it keeps the environmental issues from becoming marginalized. It is very easy to legislate special issue functions for an agency like AID that does so many things and creates over in the corner a small number of environmental projects as such.

What the assessment does in AID is to make sure that environmental issues are taken into account across the board in every kind of project, whether agricultural, natural resource, social services, whatever, that we actually look at that and make sure that it is not going to be detrimental to the environment.

Senator LAUTENBERG. Mr. Chairman, once again, my compliments to you for reviewing the funding of our aid programs and tying those into a condition that affects us very directly at home in every one of our States and every one of our communities. This is not foreign aid, per se, this is American aid, it is human aid. And I commend you for focusing on it.

Senator LEAHY. Well, thank you very much. Your involvement on this committee has been extremely helpful. In fact, I know what a busy schedule you have got today. I appreciate your coming over here on this issue.

U.N. TROPICAL FORESTRY ACTION PLAN

Dr. Blackwelder, you were very critical of the U.N. Tropical Forestry Action Plan. The figure I have is that the administration has requested $500,000 for TFAP in fiscal year 1991. Would you recommend that we provide those funds?

Dr. BLACKWELDER. I would like to submit for the record, Mr. Chairman, a letter which we wrote to the Secretary of the Treasury on the tropical forestry action plan urging a moratorium on further participation by the World Bank in these projects until basic reforms are done. I think that is the position of all environmental groups. Unless correction is made, this program is doing far more damage than it is doing good.

In that regard, I might say that there is an asymmetry in terms of we have been critical of the roles of some of the U.S. negotiating positions to date, but the U.S. Treasury Department has been excellent on issues surrounding the tropical forestry action plan because the U.S. Executive Director to the World Bank took the lead in initiating a discussion among executive directors as to whether some of these loans should proceed. And for that, they should be commended. However, that position which we took did not prevail, and at least two loans are moving ahead.

Senator LEAHY. Thank you.

[The letter follows:]

LETTER FROM THE SIERRA CLUB

The Hon. Nicholas F. Brady
Secretary of the Treasury
U.S. Treasury Department
1500 Pennsylvania, NW
Washington, D.C. 20220

May 4, 1990

Dear Governor Brady:

We are writing to express our concerns with the World Bank's involvement in the Tropical Forestry Action Plan (TFAP). **We advocate a complete moratorium on World Bank forestry sector and/or Tropical Forestry Action Plan lending until a comprehensive review of the TFAP is conducted by the World Bank along the lines we suggest in this letter.**

While we believe that global deforestation is a serious problem requiring immediate attention, we question the ability of the Tropical Forestry Action Plan process, in its current form, to faithfully address the multiple causes of tropical deforestation or produce adequate and lasting solutions. In addition to our substantive concerns, outlined below, we decry the lack of inclusion of non-governmental organizations (NGOs), particularly those from countries with tropical resources, in the Tropical Forestry Action Plan process. Most disturbingly, the net effect of the Tropical Forestry Action Plan so far appears to be increasing investment for unsustainable commercial logging activities in TFAP countries.

We urge you to raise our concerns about Tropical Forestry Action Plan, discussed below, at the May 7-8 meeting.

I. THE URGENT NEED FOR ATTENTION TO GLOBAL DEFORESTATION

With tropical forests disappearing at the rate of 30 million acres per year (an area the size of Pennsylvania), few deny the urgency of preserving those tracts of forests that remain. Approximately 25% of all species on Earth could become extinct by the year 2050-- due primarily to the loss of tropical forests. Although they cover only 6% of the globe's land surface, rainforests contain perhaps 80 - 90% of the world's species. One out of four pharmaceuticals used by Western chemists comes from a tropical plant, including those used to treat cancer, leukemia and Hodgkin's disease.

In addition, rainforests provide gene stocks critical to modern agriculture, protect watersheds, limit erosion, regulate local climate, and provide food, fuelwood and livelihood to an estimated 300-500 million people currently living in tropical forest areas. Greenhouse gases emitted from tropical deforestation, primarily carbon dioxide, but also methane and nitrous oxide, account for about 18% of total emissions of these gases worldwide. Deforestation in tropical countries has increased by as much as 90% over the past several decades.

In 1985 the World Bank, along with the United Nations Development Program, the Food and Agriculture Organization and the World Resources Institute, responded to the urgent need to address tropical deforestation by encouraging the adoption of a comprehensive framework, the Tropical Forestry Action Plan (TFAP), to serve as a mechanism to coordinate international aid efforts to the forestry sector. As of January 1990, 74 countries have applied for TFAP funding. This includes virtually every country on earth with remaining tropical rainforests.

II. SUBSTANTIVE ISSUES REGARDING THE CONCEPTION AND DEVELOPMENT OF THE TROPICAL FORESTRY ACTION PLAN

In a recent Washington, D.C. plenary session on the Tropical Forestry Action Plan, 30 NGOs from around the world analyzed the TFAP and found that on balance, tropical deforestation is likely to accelerate under the TFAP. The following observations concerning the TFAP were made:

- The original concept of TFAP was flawed by an internal contradiction: it recognized many causes of deforestation but its principal emphasis was to promote increased support for conventional forestry projects that do not address the main causes of forest destruction. Since its inception the TFAP has been an exercise in top down management; inadequate analysis of the forces driving deforestation and minimal popular support for the final national plans was in this way ensured from the start.

The plan:

- o ignores the critical role of indigenous and tribal peoples in rainforest areas: subsequent TFAP planning exercises have at best recognized this omission without taking any measures to remedy it;
- o is based on the fundamental misapprehension that more money for conventional development assistance can in itself significantly remedy global deforestation;

- o makes the unsubstantiated, flawed assumption that sustainable logging on a large scale is possible and viable.

The plan also:
- o ignores the existence and role of rural development and people's organizations in tropical forest communities;
- o overlooks existing informal market forces for forest products, and;
- o fails to identify the importance of conserving the biodiversity of forests not currently classified as protected areas.

In addition, the original plan:
- o does not establish an adequate mechanism to ensure public accountability;
- o is dominated by western and technocratic approaches to forest management and development; and,
- o underestimates institutional and social requirements for local implementation of the plan in all tropical countries.

* Development of the TFAP at the country level so far has failed even to follow the FAO's inadequate guidelines. Significantly, adherence to the FAO guidelines on TFAP is not yet mandatory for TFAP countries, nor are the guidelines comprehensive. For instance, they do not yet include specific directives on incorporating NGOs into the TFAP process or on meeting indigenous peoples' needs.

Overall, development of the TFAP has lacked a cross-sectoral approach. The integration of agricultural, conservation, economic and development perspectives into country-level TFAPs has been hindered by heavy dependence on short-term consultants with backgrounds primarily in commercial forestry.

So far, country-level TFAPs largely fail to address the root causes of deforestation because they:
- o neglect complex problems of land use;
- o often ignore policy changes that would guarantee land rights;
- o often do not recognize customary land rights; and,
- o in general do not promote integrated country-wide natural resources management plans which adequately analyze the destructive impact of forestry, agricultural and development policies and projects on remaining forest resources.

Moreover, the national plans:
- o despite their rhetoric to the contrary, do not promote sustainable forestry;
- o ignore the importance of forests in retaining carbon dioxide;
- o do not address the role of international issues such as debt and trade; and,
- o appear so far to have the effect of promoting spending by donors on ill-conceived and unsustainable commercial forestry projects.

In developing country-level TFAPs, country teams relied on limited, often inaccurate "official" information; the resulting national plans consistently reflected the interests of aid agencies and recipient governments, not forests or forest dwellers. And, the FAO failed to develop adequate mechanisms for reviewing, monitoring, and evaluating country plans.

The TFAP simplistically blames poverty as the main cause of deforestation and fails to recognize the primary role of commercial interests and failed development models. The TFAP planning process consistently overlooks root causes of deforestation, and instead largely promotes funding of logging and other unsustainable forestry projects.

What began as a well-intentioned initiative to coordinate international lending for countries with tropical rainforests has revealed itself as a serious threat to the existence of the world's remaining tropical forests. In late 1989, in response to these problems, the Director-General of the FAO ordered a review of the TFAP process.

III. PUBLIC ACCESS TO INFORMATION UNDER TFAP

So far there has been little or no public access to information on most TFAP programs for individual countries. As we have said, public and NGO participation in the TFAP has been inadequate. Since its inception, NGOs and forest dwellers consistently have not been consulted or substantively included in the TFAP process. With a few notable exceptions, the TFAP process remains top-down and exclusionary. When NGOs are included it is often an exercise to garner NGO support for a national TFAP rather than to incorporate NGO suggestions into national plans. As a result there has been little participation of NGOs and the concerned public in both recipient and donor countries.

In early 1990 environmental organizations obtained documentation on individual country TFAPs and related forestry projects for eleven countries in Africa, Asia and Latin America. Case studies of

these countries confirm that the overall thrust of national TFAPs is to promote the development of commercial forestry and industrial forest plantations. We enclose a summary of one such review, prepared by the World Rainforest Movement. All of the undersigned organizations have endorsed the findings of this review and have called for a moratorium on all international funding of the Tropical Forest Action Plan as it currently exists.

In addition, our investigations into recently approved and proposed World Bank forestry sector loans in Africa reveal the following:

Guinea: One of the first forestry sector projects to be funded by the Bank in 1990 was a $23 million forestry and fishery IDA project for Guinea. Yet, as was discovered in late 1989, the "forest management and protection" component of the project actually amounts to a deforestation scheme. The World Bank IDA credit will support the construction of 45 miles of roads in and around two humid forest reserves of some 150,000 hectares, 106,000 hectares of which are still pristine rainforests. The World Bank project document also reveals that two thirds of the remaining 106,000 hectares will be utilized for commercial timber production, even though government institutions to properly and sustainably manage timber extraction do not yet exist.

Ivory Coast: In late March of this year the Bank approved an $80 million IBRD loan to the Ivory Coast, a country which has lost over 12 million hectares of tropical forests in the past 30 years and has the highest relative deforestation rate in the world. By the year 2000, the Ivory Coast will likely become a net importer of wood. However, the new World Bank loan will support opening 700,000 hectares of new forest areas to commercial logging, in spite of a lack of convincing evidence that either government agencies or private companies will manage these areas in a sustainable manner. In addition, the World Bank did not appear to follow its own guidelines for resettlement activities even though thousands of farmers living in forest areas will be displaced by the project's activities.

Cameroon: The Bank is preparing a $30 million loan (IBRD) for the latter half of 1991 that will support a $167 million TFAP investment program prepared by FAO for Cameroon. The TFAP program's principal stated goal is to make Cameroon the largest forest product exporter in Africa in the 21st century. To accomplish this will require opening up nearly 14 million hectares (an area the size of Florida) of pristine tropical forest in southeastern Cameroon. Getting the timber out will require the construction of a major penetration road to the sea and the building of a deep-water port. The proposed road will cut through forest lands that are presently inhabited by a Pygmy population of about 50,000 people. These indigenous forest dwellers do not receive mention in the now completed TFAP planning document for Cameroon. The World Bank Cameroon forestry loan is currently under preparation. If, when approved, it supports the general goals of the Cameroon TFAP, an environmental and social tragedy will result.

IV. WORLD BANK FORESTRY SECTOR INVESTMENTS

World Bank investments in the five TFAP "fields of action" heavily favor forest based industrial development projects. World Bank TFAP investments by field of action in 1988 were (U.S. $ millions):

$ 73 : 61.1%	forest industries: commercial logging and industrial tree plantations
$ 20 : 16.7%	conservation: maintenance of biodiversity and climatic stability
$ 13 : 10.9%	forest in land use: tree planting, agroforestry, and watershed protection
$ 12 : 10.0%	fuelwood and energy: conservation, alternative fuels, new resources
$ 12 : 9.6%	institutions: improved planning, research, training and extension services

Total $119.9[1]

We understand that under the TFAP auspices, the World Bank plans to increase its forestry sector lending from $138 million in 1987 to as much as $800 million annually by 1992. The World Bank's track record on forestry projects, as outlined above, calls into question its ability to fund projects contributing to a slowing of deforestation, as originally called for under the TFAP.

V. RECOMMENDATIONS

The undersigned organizations have called for a moratorium on World Bank forestry sector and/or Tropical Forestry Action Plan lending until a comprehensive review of TFAP is conducted. We urge that this review be undertaken under Bank auspices, but with full NGO input, complete NGO and public access to TFAP documentation, and NGO and public meetings with Bank staff on the TFAP. As part of this review process, public meetings should be held in all TFAP countries that have reached the

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[1] *Review of International Cooperation in Tropical Forestry* 9th Session of International Cooperation in Tropical Forestry 9th Session of Committee on Forest Development in the Tropics, Rome, Italy, 11-15 September 1989.

Stage II planning phase. These meetings should fully incorporate NGO comments and proposals into TFAP planning and projects and should provide for complete public and NGO access to TFAP planning documents. We urge that the review be completed by July, 1991.

We believe that Tropical Forestry Action Plan donors must meet, with NGO participation, to reconsider the management and organizational structure of the TFAP. This discussion should also consider whether the FAO is the appropriate agency to continue as coordinator of the TFAP.

Finally, we strongly encourage the incorporation of the following reforms into the TFAP before funding is resumed. Without the incorporation of these measures, we cannot endorse the TFAP:

o PUBLIC PARTICIPATION: Country review teams must foster broad participation by NGOs and non-forestry sectors, including conservation biologists, land use planners, demographers,and social scientists. Country plans must include built in guarantees to incorporate the needs of forest dwellers/indigenous peoples, as they themselves define them, and to address the many causes of deforestation. Local organizations and indigenous peoples must be fully included in the TFAP planning and project identification process.

TFAP Operational Guidelines should be amended to include explicit directives on incorporating NGOs into the TFAP process and meeting indigenous peoples' needs (as informally adopted by the FAO Forestry Advisors Group), and should be made binding and mandatory.

The FAO should establish a procedure requiring public hearings, including complete public and NGO access to TFAP documents, on all final country-level TFAPs.

o BROADEN SCOPE OF ACTION: Country plans should encourage immediate policy action, such as legislative reform and securing of land claims, in addition to investments, whenever possible. Country plans should address broad policy and institutional issues, such as land tenure, multi-sectoral land use planning and government subsidies, beyond a strict focus on forestry sector investment planning. Specifically, country plans should include concrete time tables for recognition of land tenure for forest dwellers, especially the recognition of ancestral domains for indigenous peoples.

TFAP should encourage the rational utilization of non-wood forest products such as nuts, fruits, rubber, oils and incorporate the findings of "new" resource economics demonstrating the superior long-term sustainability and value of these products. In addition, all national TFAPs should include a clear commitment to the preservation of natural forest areas.

o STRONGER OVERSIGHT: All country plans should include a forest monitoring plan and call for the creation of a national inter-agency coordinating unit and review committee which includes NGOs.

The urgent need to reduce traditional forestry's influence on the TFAP should be discussed at a central donors' meeting on the TFAP, which is fully open to participation by NGOs. Measures to limit traditional forestry's influence on TFAP such as moving the TFAP coordinating unit from the FAO Forestry Department to the FAO Executive Director's office or elsewhere should be considered.

Finally, the FAO Forestry Advisors Group should reduce support and financing of forest industries projects and increase funding for ecosystem and watershed conservation and the incorporation of NGO and local group views into the TFAP planning process. A multisectoral TFAP oversight body outside of the FAO structure, should be created. This body should have responsibilities including, but not limited to, the distribution of TFAP documents to NGOs and the interested public, and the solicitation of NGO and public participation in the TFAP process.

We would like to emphasize that we fully support immediate attention to the world problem of deforestation. However, we cannot support the Tropical Forestry Action Plan as it currently stands. We urge the Bank to review seriously the recommended reforms and difficulties with the TFAP contained in this letter, and to withhold funding for all forestry sector and Tropical Forestry Action Plan loans until a comprehensive review of the TFAP, along the lines we have suggested, has been completed. Without this review, and adoption of the necessary reforms, the Tropical Forestry Action Plan process and World Bank TFAP and forestry sector lending will accelerate, not reduce, global deforestation.

Cordially,

Cathleen A. Fogel
Associate International Representative
Sierra Club

Larry Williams
Washington Director, International Program
Sierra Club

on behalf of:

James N. Barnes
Senior Attorney
Friends of the Earth

Barbara Bramble
Director of International Programs
National Wildlife Federation

Chad Dobson
Secretary
Bank Information Center

Peggy Hallward
Director of Forestry Research
Probe International, Canada

Gustavo Gonzales
U.S. Representative
Ecology Coalition
Amzonia: Por La Vida
Ecuador

Ward Morehouse
President
Council on International & Public Affairs
New York

Bruce Rich
Senior Attorney
Environmental Defense Fund

Glenn T. Prickett
Research Associate
Natural Resources Defense Council

Maximo T. Kalaw, Jr.
President
Green Forum/The Haribon Foundation
The Philippines

Marcos Arruda
Brazilian Director
Regional Program of Economic and Social Research for the Southern Cone of Latin America
Rio de Janeiro, Brazil

Santiago Dam Lau
Treasurer
Foundation for National Parks and the Environment
Panama

cc: Development Committee members
Executive Directors
Barber Conable

Enclosure: Summary from the World Rainforest Movement report.

SUMMARY FROM THE WORLD RAINFOREST MOVEMENT REPORT

(By Marcus Colchester and Larry Lohmann)

The *Tropical Forestry Action Plan* - the main response of the United Nations agencies and the World Bank to the international problem of tropical deforestation - continues to be hailed as the solution to a crisis that has now reached global proportions. The governments of no fewer than 73 tropical countries, which between them include some 85% of the moist tropical forests, have shown an interest in the plan.

The major donor agencies in first world countries are now channelling much of their development assistance funds for forestry activities through the programme. In November, in a major speech to the United Nations, Mrs Thatcher, the British Premier, pledged to triple UK support for development in tropical forests, up to £100 million over three years, "mostly within the framework of the Tropical Forestry Action Plan."

Yet ever since its inception in 1985, the *Tropical Forestry Action Plan* has been subject to strong criticisms by non-Governmental organisations. The Plan had been elaborated with almost no consultation with NGOs nor with community-based organisations. It paid little attention to the needs and rights of forest dwellers and seemed unduly focused on funding commercial forestry and wood-based industries, while failing to identify the real causes of deforestation.

The framers of the *Tropical Forestry Action Plan* have responded to these criticisms, but to what extent are these reforms more than skin deep? Are the principles that the *Tropical Forestry Action Plan* now espouses - of promoting sustainable development and tackling the root causes of deforestation - really being applied?

This review has been carried out to answer these questions. It looks in detail at nine of the National Forestry Action Plans so far produced and evaluates them in terms of the expressed goals and basic principles of the *Tropical Forestry Action Plan* itself.

The conclusions of the review are most alarming. The national plans, it found, are, on the whole, narrowly focused on the forestry sector of third world countries. Far from examining the problems of deforestation within the broad context of national and international policies, with a multi-disciplinary review team qualified to carry out such a wide-ranging enquiry, most of the national plans are dominated by the concerns of conventional forestry.

As a consequence, the national plans are failing to propose solutions to the main causes of deforestation in the countries concerned. Many

of the national plans ignore politically delicate issues such as the causes of landlessness - the main factor causing the rural poor to colonise the rainforests. They avoid addressing or resolving conflicts of interest. The plans frequently fail to challenge the national and international projects and policies that are leading to deforestation.

In sum, the national plans are, on balance, failing to tackle the main causes of deforestation.

At the same time, the national plans will promote a massive expansion of logging in primary forests. Despite the fact that rainforest logging is not being carried out sustainably and is itself one of the principal causes of deforestation, under the *Tropical Forestry Action Plan* logging in primary forests will intensify.

Furthermore, the national plans will promote a simultaneous expansion of wood-based industries, whose dependence on continuing supplies of forest timber will only increase the pressure on the forests.

The plans, moreover, pay far too little attention to the needs and rights of the rural poor and the landless, particularly women. Issues of land use, land ownership and land legislation are regularly ignored and the rights of indigenous peoples often omitted from consideration.

On the basis of these findings, the World Rainforest Movement is calling for a moratorium of international funding for the *Tropical Forestry Action Plan*.

The report also demands that the *Tropical Forestry Action Plan* be restructured so that it can meet its stated goals of checking deforestation and promoting genuinely multi-disciplinary and cross-sectoral planning. **Only if and when this has been seen to be achievable should funding be resumed.**

Among the essential aspects of such a restructuring, and in order to ensure a democratic development process, **in which local people have a decisive voice in the formulation of policy about resource use in their areas**, the review urges that freedom of information in the evolution of national forestry action plans should be made a condition of countries' involvement in the *Tropical Forestry Action Plan*.

Only by opening up the process in this way, the review argues, can effective and informed involvement of non-Government organisations and citizens groups become possible. Only with such openness can the *Tropical Forestry Action Plan* ensure that it is both accountable and amenable to urgently needed quality control.

The report also calls for a rapid revision of the existing national plans so that the deficiencies identified in the review are corrected. It calls for a massive scaling-down of logging operations and urges that no funding or technical facilities should be made available under the *Tropical Forestry Action Plan* to promote the commercial logging of primary forests.

REPORT ON GLOBAL WARMING ACTIONS IN KEY COUNTRIES

Senator LEAHY. Mr. Bissell, in our committee report last year, we directed AID to report to us by April 15 on what actions could be undertaken in the key countries to reduce global warming. I understand that plan will not be completed until July 15. Assuming Senator Kasten agrees, I am willing to extend the date. Obviously you did not make the April 15 date, but July 15 is, I think, a bit long. I would hope that we would be marking up our bill by then. So I mention that report, if it is to be helpful, it is going to have be in here by the end of June at the latest.

That is still 6 months after the legislation was signed by the President.

Mr. BISSELL. I understand that, Mr. Chairman. And we will certainly aim for June 30. Whatever we have in hand, we will make sure that you and your staff have it. Frankly, our concern with that report was that we did really want it to be right. And I think you will be very pleased with the report, that the data from the intergovernmental panel on climate change, EPA, and from others, has been a little slower in being generated, and we had wanted to include that. As I say, you will like the product, and it will be one that will reinforce the kinds of initiatives that you have suggested in this area.

Senator LEAHY. Thank you very much.

INCREASE IN STAFF

Mr. Bissell, in our legislation we had a number of specific requirements. One was that AID increase the number of staff with expertise in energy efficiency, renewable energy, environmental activities in all the bureaus and missions. What are your plans to increase staff in those areas?

Mr. BISSELL. At the beginning of this fiscal year, we had about 40 people who were trained in the environmental area. We are adding 20 people in the course of this year. They are scattered among a range of specialties in natural resources, energy, the environment. We hope it is a fair allocation in that they will be allocated both in missions and in Washington.

As I mentioned, we hope to do this in the following 2 years as well. The authority that you provided in this year's bill to provide program funding for some of those, and it will only be for some of them, has been absolutely invaluable, and we hope that it will be continued in the next bill as well.

TRAINING OF MISSION DIRECTORS

Senator LEAHY. Are mission directors getting instruction in energy conservation and in forestry conservation?

Mr. BISSELL. Certainly training of our mission directors and the senior mission personnel in the field is a crucial component. And that is why it plays a very important role in our environmental initiative that I mentioned in my testimony.

From my point of view, such training is never soon enough and never sufficient enough, but I think we are making significant strides, and it is certainly many steps ahead of where it was last

year or the year before. So we will be getting people retrained in environmental issues just as quickly as we can. As you can imagine, putting senior people through a 2-week course on the environment is 2 weeks out of their schedules of working with governments in the developing countries, but we think it is worthwhile. The Agency's executives are reinforcing the issue, making sure that senior people go through retraining on the environment.

FUNDING FOR AID'S OFFICE OF ENERGY

Senator LEAHY. We put in $20 million for AID's Department of Energy. I think you have it funded at $15 million and you are requesting $13.1 million in fiscal year 1991. Is this sliding off from our goal? Or why the progression from $20 million to $15 million to $13.1 million?

Mr. BISSELL. What happens in funding the Office of Energy is that there is an opening-year allocation to the Office, and then funds through the year are transferred to the Office, generally out of regional or mission funding. We expect it to reach $20 million in the course of this year, even though it started at the beginning of the year at $15.4 million. Likewise, our proposal for fiscal year 1991 is based upon an assumption that, in fact, there will be transfers through the course of the year to bring it up to the $20 million level.

IMPACT OF IMPLEMENTING LEGISLATION ON GLOBAL WARMING

Senator LEAHY. Mr. Prickett and Dr. Blackwelder, if AID and the World Bank really get serious about implementing the legislation on global warming, what impact would it have? What could be accomplished in improving energy efficiency and reducing deforestation?

Mr. PRICKETT. If AID and the World Bank get serious and, I will add, a not small part of this whole question of being critical of the organizations today, but it also is imperative that they convince the governmental actors they are working with to get serious. If the developing countries become serious about energy efficiency—we are not setting a very good example in our country right now, I will add, but if they do become serious, the impacts could become very substantial.

Conservative estimates about what an energy-efficiency future could look like, compared to a business as usual path, would say that efficiencies could be improved on the order of 25 to 30 percent. This would reduce greenhouse gas emissions, obviously, by roughly the same numbers, and more importantly, in the short run for the countries concerned as Mr. Bissell pointed out, would reduce drastically their needs for investment capital, these incredible power expansion plans they have.

So it is in the economic and the environmental interest of those countries and of our country, as Senator Lautenberg pointed out, that the organizations do get serious. And as I mentioned a little bit earlier, a lot of it will have to do with staff. We have to get trained professionals in the AID missions in the country and in the World Bank who understand energy efficiency, who can structure

aggressive programs in energy efficiency working with the governments.

Right now at AID a lot of the real momentum for energy efficiency is coming out of the central Office of Energy. So it is very important that the funding be kept there. But it is also important that some of that expertise begin to be diffused out to the missions.

At the Bank, similarly you have a store of some expertise on energy efficiency locked away in the research arm of the Bank, but out where the rubber hits the road in the country offices, there is not a lot. So that is a critical need.

Dr. BLACKWELDER. I might say it is our judgment that the World Bank could be a real leader in making the economies of the world energy efficient. And there is no excuse for the Bank not to do so. We have, in my testimony, tried to rebut the major arguments that they advance for not being more energy efficient. I just give you one example, though. The World Bank is loaning a lot of money to Brazil. If Brazil spent $8 million on efficiency improvements for new lights, motors and appliances, it could save $38 billion in new dams and other power projects that would destroy the Amazon.

Senator LEAHY. How much?

Dr. BLACKWELDER. $8 billion would save $38 billion. So you see, anyone in their right mind, just from a fiscal standpoint, would be making these kinds of investments. But the Bank is, I think in part because of some stodgy senior bureaucrats, is still going the same route that they were going a decade ago. We need to think hard about a way to break into that bureaucracy and change directions.

I have reviewed the tremendous amount of excellent legislation that has been passed over this past decade through the leadership of this subcommittee. It is great. But since we have only one vote, our vote at the World Bank, we have got to think of some new message to send them to get their energy spending totally transformed, to take advantage, as you think bankers might logically want to do.

BIG VERSUS SMALL PROJECTS

Senator LEAHY. Is it partly because it is also easier to just make one big mega project?

Dr. BLACKWELDER. That is what they say.

Senator LEAHY. And money gets spent out and everybody can point to it, and dedication ceremonies are a heck of a lot more impressive at a big mega project than, say, an assembly line for energy efficient light bulbs.

Dr. BLACKWELDER. The so-called monument for the dictator kind of mentality. But that is one of the fundamental arguments that they offer, is that we cannot do a bunch of small projects. But that misses the whole way you would do an energy efficient loan. You would be making the loan to the country to finance the efficient equipment which would be put in place not by the World Bank, but by the utility in the country or the industry group or whoever was in charge of that kind of distribution on a regular day-to-day basis. And we categorically reject the argument that the Bank is not set up to do that kind of thing. It is the kind of management structure you want to put in place. And, as bankers, we would think they

would be wanting to make a better set of returns than they are now making.

But we find out the reward structure for that staff is not set up logically. They are rewarded on the basis of the amount of money they move, not on the success of the loan.

Senator LEAHY. I am concerned that what we are doing is making the pedestal for Ozymandias' statue. But—sorry about that.

Mr. PRICKETT. I will underscore that. We will have to admit that improving energy efficiency is not easy. It has not been easy in this country, it continues not to be easy and it will be even harder in developing countries. And there is a critical need for institutions in those countries who can deliver basically energy conservation services. And what the United States can do in terms of the banks is two things: a carrot and a stick.

The carrot we need is grant-based programs like AID in those countries trying to set up those institutions. That is what is happening in India now. So the Bank and AID are more coordinated in their programs.

The stick has to be insistence on your former colleague, Barber Conable, that he tell his staff very clearly that energy conservation matters and that it will be in the interests of professional at the bank to take the extra time to put together energy conservation loans that, as Brent said, the incentive structure is crucial. Right now, it just is not there.

Senator LEAHY. It would also be in their interest, too, if they want support from this committee because of the strong feelings held, I think, by a majority of both Republicans and Democrats on this committee.

CLOSING REMARKS

Mr. Bissell, you have been in your present job for 6 months and we have unloaded on you all the problems that we may have with AID since the hearing on this subject 1 year ago. I hope you do not take any of it personally. You are a true professional, and I must say I hear nothing but the best reports of your professionalism and of your work. And I know that there are changes underway at AID. If we ask questions here I would expect you to not take all the load on you own shoulders, but to make sure you spread any concern that we have around. We want you to go back, and if ire of the committee comes out, spread that ire. Do not take it upon yourself.

Mr. BISSELL. I am happy to carry the message, Mr. Chairman. It also gives me a good, long action agenda. Thank you.

Senator LEAHY. I do not want them to kill the messenger when you go back, but I cannot emphasize enough that both Senator Kasten and I are in this one for the long term. And it is a bipartisan initiative; it is a deeply felt one. And I think in many ways we do it not just because of our responsibilities here in this committee; we do it for our children and your children. I am just afraid that so many times these things really require long-term, year-after-year-after-year commitment, that they get pushed aside for what might be trendier and in the headlines of that day. I mean, we can look anywhere in the world and say, oh my gosh, here is something that

the United States ought to step in and take care of today. There is a famine, there is a coup, there is a this, that, or the other thing. That does not mean that we shouldn't.

But if we do not show the kind of long-term leadership as the leader of the industrial nations, I do not know who is going to. This is why I have expressed, not only in this forum but on the floor of the Senate, my grave, grave concern about our activities with the Montreal Protocol. I think the United States instead of being able to maintain its role as a leader for the world, ended up with a role where it carries the blame for destroying an international conference that was ultimately to be beneficial to all of us.

ADDITIONAL COMMITTEE QUESTIONS

I appreciate your being here. I appreciate the candor of your testimony both today and in earlier times. I am sure we are going to be spending a lot of time together this year.

Gentlemen, I thank you both for being here, both for yourselves and for the fine organizations you represent.

There will be some questions which we will submit to you for your response.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

GLOBAL WARMING INITIATIVE: KEY COUNTRIES

SENATOR LEAHY: Mr. Bissell, how much of A.I.D.'s total funding for energy and forestry programs will go to support energy efficiency and forestry conservation in the key countries? Will any of the key countries be left out? If so, why? Will A.I.D. implementation of the global warming initiative draw funds away from other A.I.D. environmental activities? If so, there is a failure to understand that this was not the Subcommittee's intent. We provided an additional 15$ million specifically for the global warning initiative.

MR. BISSELL: Over $60 million is planned for energy efficiency and forestry conservation in key countries in FY 1990. Total funding for these activities worldwide is $185 million in FY 1989 and $225 million in FY 1990. The increase of $40 million over the FY 1989 level is well above the $15 million requirement. All key countries identified by A.I.D. with the exception of China, are included.

Even as burgeoning environmental issues such as climate change and pollution in Eastern Europe become more apparent, degradation of the environment in developing countries continues to accelerate. A.I.D. simply does not have the resources to address all the critical environmental problems in all countries. As we expand our efforts in key climate change countries and respond to unanticipated opportunities such as Eastern Europe, difficult choices must be made. Our new Environment Initative and our Strategy on Global Climate Change will help guide A.I.D.'s program to those issues and countries where assistance will have the greatest impact.

GLOBAL WARMING INITIATIVE: STAFFING

SENATOR LEAHY: Mr. Bissell, our legislation contains a number of specific requirements. I want to ask you about several of them to see if they present any difficulties for A.I.D.

A.I.D. is to increase the number of staff with expertise in energy efficiency, renewable energy, and environmental activities in all bureaus and missions. What are your plans to increase staff in these areas?

MR. BISSELL: A.I.D. has taken steps to hire, in FY 1990, up to 20 experts in end use energy efficiency, renewable energy, and environmental activities, using various authorities such as contracts, Resource Services Support Agreements, Participating Agency Services Agreements, etc. In January, overseas missions and A.I.D./Washington offices were queried about their needs for program-funded environmental positions. A personnel hiring plan was prepared in March to determine how best to meet those needs, within available funds and hiring authority.

We will shortly put in place a central capability to recruit and screen applicants to assure quality control, and to provide management assistance in the hiring and contracting process. Meanwhile, bureaus and offices are moving ahead to specify, establish, and fill environmental positions with qualified individuals.

The current status of FY 1990 positions is:

On Board
-Industrial Pollution Specialist (ANE Washington);
-Natural Resources & Energy Policy Advisor (AFR Washington);
-Environmental Training Specialist (S&T Energy).

Being Advertised
-Global Warming Advisor (Mexico);
-Global Warming Advisor (Brazil);
-Regional Land Use and Environmental Planner (PRE/Housing Jamaica).

To Be Advertised
-Global Warming Advisor (LAC Washington);
-Environmental Project Manager (ANE Washington);
-Natural Resources Economist (ANE Washington);
-Environmental Program Manager for Eastern Europe (ANE Washington);
-Environmental Specialist, Foreign Service National (Bangladesh);
-Global Climate Change Advisor (AFR Washington);
-Environmental Specialist (S&T Energy);
-Global Warming Advisor (S&T FENR);
-Pest Management Advisor (S&T AGR);
-Animal Agriculture Systems Advisor (S&T AGR);
-Senior Ecologist (S&T AGR);
-Environmental Economist (PRE/Housing Washington).

GLOBAL WARMING INITIATIVE: TRAINING

SENATOR LEAHY: Mr. Bissell, our legislation contains a number of specific requirements. I want to ask you about several of them to see if they present any difficulties for A.I.D.

A.I.D. is to provide technical training to mission directors in energy and forestry conservation. Is that underway? Does A.I.D. offer training for energy officials in the countries that receive our aid?

MR. BISSELL: To train and increase the awareness of its own staff (including mission directors), A.I.D. is engaging a contractor to design and implement an environmental and energy training agenda that includes the training of up to one hundred A.I.D. staff each year for the next three years. Areas to be covered by specific training courses include: environmental impact assessment, natural resources management, and natural resources economics. Additionally, short-term workshops and awareness programs will be provided for mission directors and others not directly responsible for project development and implementation. Even though it is anticipated that the contract will be signed this fiscal year, because of contracting lead time it is not expected that the training will actually be started until FY 1991.

With regard to training host country energy officials from A.I.D. recipient countries, since 1981 A.I.D.'s Energy Training Project has trained over 1,000 professionals from public and private sector entities in a wide variety of energy-related subjects ranging from energy policy to coal handling. Some training is designed specifically for energy policy making officials while other elements are designed for more technically oriented energy personnel such as engineers.

Short- and long-term (college degree) training programs have covered such areas as: energy planning and policy, managing national petroleum enterprises, management of electric utilities,

private power cogeneration, gas exploration, international petroleum agreements and pricing, petroleum finance and economics, operations auditing, systems maintenance, end use analysis, and human resources development and training.

Courses conducted under the Energy Training Project are being modified or expanded to address global climate change issues, and three new courses are being developed to train participants from developing countries.

SPECIFIC REQUIREMENTS OF THE GLOBAL WARMING INITIATIVE

SENATOR LEAHY: A.I.D. is to devote at least 10 percent of its funds for forestry activities to the preservation and restoration of natural forests. What percentage do you expect to devote to preservation and restoration?

MR. BISSELL: In its 1987 Report to Congress on tropical forests and biological diversity, A.I.D. reported that as little as one percent (1%) of its obligations for tropical forests were primarily directed at preservation, and that approximately ten percent (10%) dealt with natural forest restoration and management. Since 1987, the attention given to forest protection and preservation in the Agency's tropical forestry program has been rising dramatically.

By the end of fiscal year 1989, for example, A.I.D. reported in its 1988-1989 Report to Congress on tropical forests and biological diversity that more than six percent (6%) of all tropical forest obligations were directed toward forest preservation under strict FAA Section 119 definitions of "biological diversity." Even more significant is the growing trend toward inclusion of natural forest protection components within planned new tropical forest development projects. In fiscal year 1988, less than one-third (1/3) of all planned forestry projects contained forest preservation components; by 1989, over three-quarters (75 percent) of all planned forestry development projects contained forest area protection and preservation provisions.

FUNDING FOR OFFICE OF ENERGY

SENATOR LEAHY: Fourth, a target of $20 million for AID's Office of Energy. I understand you plan to fund this office at $15 million and have only requested $13.3 million for FY91. Our aim in suggesting $20 million was to strengthen the role of the office of Energy. How is this funding cut consistent with that?

MR. BISSELL: A.I.D. proposes to increase obligations for its energy program from $206 million in FY90 to $224 million in FY91. This reflects A.I.D. and Congressional directives of putting more resources into energy. Although the budget of various offices will vary from year to year, the Agency's total energy program is expanding rapidly. The budget for the Office of Energy will be augmented by regional bureau and mission buy-ins of approximately $4 million in FY90. I must emphasize strongly that the Office of Energy represents less than 10 percent of A.I.D.'s total energy program, which is largely implemented through the geographic bureaus.

A.I.D.'s energy program encourages the use of clean technologies that use renewable energy sources, including biomass

energy, wind, geothermal, photovoltaics, and small hydro; improved power sector investment ("least-cost") planning; increased energy efficiency; and policy reform, including energy pricing and private power investment.

A.I.D. has provided energy conservation services to more than 25 countries, emphasizing conservation primarily in the industrial and electricity sectors, but we support programs in the building and transportation sectors as well.

A.I.D. leverages its resources for energy through collaboration with other donors and U.S. Government agencies. For example, in India A.I.D. is supporting research and rapid commercialization of more efficient and renewable energy systems and has been joined with the World Bank in conducting an assessment of the power sector. In Poland, A.I.D. IS working with the Department of Energy on the retrofit of a coal power plant to reduce sulfur and nitrogen oxide emissions, and with EPA on an air monitoring system for Krakow.

A.I.D.'s current and proposed budget clearly illustrates the Agency's commitment to a continuing increase in funding for energy.

A.I.D. AND THE WORLD BANK

SENATOR LEAHY: I know A.I.D. tries to stay informed about the potential environmental impact of projects the World Bank is considering funding. I have seen the list of World Bank projects A.I.D. has expressed concerns about. How responsive has the World Bank been to your concerns? Are there projects A.I.D. has serious concerns about which the World Bank is going ahead with?

MR. BISSELL: Consistent with Congressional legislation, A.I.D. regularly monitors Multilateral Development Bank projects with possible environmental problems. Our concerns are shared with an informal inter-agency working group on MDBs and the Environment and forwarded to Bank management through the U.S. Executive Director. Sometimes the World Bank has made significant changes in project design based on A.I.D's concerns.

Normally there is a greater chance to influence the project if we find the problems early in the project cycle. Sometimes a problem is identified late in the cycle and it is more difficult for the World Bank or the borrowing country to rectify the problem. For example, the World Bank is continuing to fund the controversial Sardar Sarovar dam on the Narmada river in India, and to develop plans for a loan to the Narmada Sagar dam upstream of the Sardar Sarovar. Neither A.I.D.'s monitoring system, nor the World Bank's Environmental Assessment procedures were in place when the Sardar Sarovar was being developed.

Under strong pressure from the United States, the World Bank adopted systematic environmental assessment procedures last October. Over time we believe these procedures will significantly improve the environmental soundness of loans in the pipeline.

QUESTIONS SUBMITTED BY SENATOR ARLEN SPECTER

BILATERAL INITIATIVES ON CFCS

SENATOR SPECTOR: In your testimony you mention that market forces "must be an increasingly important and integral component of A.I.D.'s environment program." You further acknowledge that the people living around forests, wetland, and coastal zones, "should be provided incentives to manage these resources sustainably for their own benefit." Given the recent decision by the Administration to not support an international effort to assist developing countries in curbing CFC production, how does the Administration intend to play a role in assisting developing countries in phasing out CFCs. Are we pursuing bilateral initiatives. If so, are these initiatives consistent with strategies to develop market forces in third world countries?

MR. BISSELL: The costs to developing countries for phasing out CFCs is still being estimated. The estimation procedure is somewhat complicated and involves looking at costs to producers, users and consumers. We believe the overall costs in the short term are relatively small, estimated at in the range of $100-200 million over a three year period. The Administration has asked the World Bank to begin working on providing assistance for this purpose through its regular program.

Meanwhile, we at A.I.D. are looking into the appropriate role for our bilateral assistance program in this area. We believe we have some relevant experience based on our support for industrial investment in energy efficiency. We will also be exploring collaboration with the private sector to find a solution to this important environmental problem. We believe a solution can be found consistent with strategies to develop market forces in third world countries.

PARAGUAY - ESTABLISHMENT OF MBARACAYU NATURE RESERVE

SENATOR SPECTER: In April I had the opportunity to visit Paraguay and meet with U.S. Ambassador Timothy Towell and President Andres Rodriguez. One issue in that country of special importance to the United States is preservation of an invaluable natural asset, the Mbaracayu tropical rain forest.

Reports indicate that the Mbaracayu encompasses 60,000 hectares in Paraguay near its border with Brazil. Reports indicate further that this is the largest remnant of virgin forest in Paraguay that is self-sustaining and provides shelter to large mammals. It also serves as the home of the native Ache people, a tribe of hunter-gatherers that are dependent upon the forest for their livelihood.

I am advised that the World Bank, through its International Finance Corporation (IFC), currently is working with Paraguay on a debt-for-nature swap to preserve this forest. In addition, I am advised further that the Nature Conservancy is working with the Bertoni Foundation in Paraguay to raise sufficient funds to acquire and preserve the Mbaracayu. Reportedly, A.I.D. is considering providing significant funding to the Nature Conservancy to bring this important project to fruition.

Please provide the Subcommittee with a comprehensive report on the current status of A.I.D.'s efforts through its global warming

program to help preserve the Mbaracayu tropical rain forest.

MR. BISSELL: The Nature Conservancy has presented to A.I.D. an unsolicited grant proposal requesting $500,000 to support a debt-for-nature swap for the establishment and long-term protection of the Mbaracayu Nature Reserve in eastern Paraguay. A.I.D. is now reviewing this grant and is working towards the early conclusion of a grant agreement to support this important initiative. Funding for this project will be provided under the Global Warming program.

SENATOR SPECTER: What international efforts, other than that initiated by the World Bank, if any, are underway to preserve this rain forest?

MR. BISSELL: Other international organizations have joined in the effort to establish the Mbaracayu Nature Reserve, and protect this vulnerable, and important area. The Nature Conservancy has advised and supported the local Paraguayan environmental organization, Fundacion Moises Bertoni, in management planning for this project. World Wildlife Fund and other conservation groups have provided operational support to the Fundacion in developing the project. The Inter-American Foundation provided funds to contract a team to complete an economic profile of the local communities and land owners within the project area. The Nature Conservancy has developed plans to enlist the support of European Foundations towards completion of a fund-raising campaign for the purpose of protecting the Mbaracayu Nature Reserve.

SENATOR SPECTER: What are your personal recommendations regarding what additional steps can be taken by the United States, Paraguay, and the international community to preserve the Mbaracayu?

MR. BISSELL: A.I.D.'s commitment to the establishment of Mbaracayu Nature Reserve was demonstrated at a Ceremony on June 14, 1990, where Dr. Roskens signed a Certificate of Recognition between A.I.D. and The Nature Conservancy to work towards the early establishment of this park. The next step towards realization of this goal is the successful negotiation of an agreement by the Nature Conservancy with the present owner of the Mbaracayu property, the International Finance Corporation, and with the Government of Paraguay. We urge that the principal agents involved strive to expeditiously conclude a debt-for-nature exchange agreement, acceptable both to the Government of Paraguay, the International Finance Corporation and The Nature Conservancy.

QUESTIONS SUBMITTED BY SENATOR MARK HATFIELD

NEW A.I.D. PROGRAMS IN RENEWABLE ENERGY TECHNOLOGY

SENATOR HATFIELD: Pursuant to directives included in A.I.D.'s Fiscal Year 1990 Appropriation, funding was to be set-aside for more aggressive promotion of cost-effective applications of U.S. renewable energy technology. What new programs have been initiated by A.I.D. to fulfill this Congressional recommendation?

MR. BISSELL: A.I.D. has begun a number of new initiatives in renewable energy in Fiscal Year 1990.

In Pakistan A.I.D. has given preliminary approval for a U.S. hydropower development firm to develop a 10-megawatt private hydropower project at a cost of $10 million. Also, we plan to fund

feasibility studies for private sector small-hydropower projects in Pakistan.

In Guatemala the Agency is providing a team of U.S. experts to help the Guatemalan electric utility develop guidelines for setting prices for power purchased from private sugar producers (using bagasse as a fuel).

A.I.D. is funding a power sector assessment to improve efficiency in existing hydropower plants in Costa Rica. The Agency is also funding pre-investment studies for a small hydropower project to be built in Costa Rica.

Through a new cooperative agreement, the Agency is working with the U.S. Export Council on Renewable Energy to plan and carry out reverse trade missions and new activities in education and training. We will also undertake a comprehensive assessment of A.I.D. activities and projects worldwide where renewable energy technologies can: (a) make an important contribution but (b) are not being considered due to lack of information on the part of the local A.I.D. staff.

Complementary to that cooperative agreement, the Agency is funding the participation of ten persons from Central America at the upcoming international symposium on geothermal energy sponsored by the U.S. Geothermal Resources Council. A.I.D. also supports a yearly symposium of the American Wind Energy Association. A.I.D. has begun sponsoring symposiums at the World Bank on renewable energy technologies. The first, held this past April and co-sponsored by U.S. industry, was on experience with electricity from wind energy in California.

The Agency is collaborating with the World Bank, the U.S. Department of Energy, and the Dutch Government to develop new financing mechanisms for large scale power-sector loans to cover large numbers of decentralized renewable energy and energy efficiency projects.

A.I.D. is providing support to a U.S./India joint venture to produce thin-film photovoltaic modules and associated product lines in India. Production is now underway in India and A.I.D. is supporting the development of an export marketing study and business plan.

Through the biomass energy project, the Agency has begun new activities to promote the use of agricultural residues for electricity generation--in Pakistan (sugar industry), India (rice and sugar industries), and Indonesia (sugar and palm industries).

Through a cooperative agreement with Winrock International, a venture capital fund is being established to work with private investors to encourage renewable systems. In addition, Winrock is helping to fund in-country feasibility studies; Costa Rica and India may be the first sites.

Working with U.S. industry, A.I.D. is looking into the potential for renewable energy-based water purification systems in countries where water-borne disease is often the leading health hazard.

The Agency is providing a renewable energy expert to participate in a renewable energy trade mission to member states of the Association of Southeast Asian Nations in June 1990.

A new fund for energy efficiency and renewable energy is being established at the World Bank through a Cooperative Agreement with A.I.D. This fund will support pre-investment studies in conjunction with the development of energy sector loans by the Bank and the use of some existing energy sector Bank loans.

A new cooperative agreement with Lawrence Berkeley Laboratory will include an international workshop, enabling experts to review the status of renewable energy efforts in developing countries. Participants are expected from the bilateral and multilateral aid donors, the renewable energy community (industry, academia, national labs), and developing countries (industry and government).

The Agency has initiated a pre-investment study for a small hydropower project in Indonesia which would displace existing diesel generators serving ten mini-grids.

SENATOR HATFIELD: A.I.D. had initiated renewable energy promotion programs in Pakistan and Egypt. Other than wood stoves, what renewable energy technologies have been utilized in Pakistan as a result of A.I.D. activities?

In Egypt, A.I.D. signed a multi-million dollar deal for Danish wind turbines. What is A.I.D. currently doing to promote photovoltaics, solar thermal and wind energy applications in Egypt.

MR. BISSELL: A.I.D. energy programs in Pakistan and Egypt have sought to create an economic and institutional environment favorable for renewable energy. Both countries have highly subsidized energy prices that represent disincentives to investments in renewable energy technologies. A.I.D. efforts have led to increases in prices for petroleum fuels and grid-based electricity that are encouraging efficiency and the adoption of renewable energy systems. A.I.D. support for Pakistan's private power program has provided an opening for renewable energy companies, since the Pakistan government is willing to purchase power at close to the economic cost. A.I.D. has been working with the U.S. Council for Renewable Energy Exports and member associations and companies to develop investment proposals for hydro, solar and wind energy under this program. Several U.S. proposals have been submitted to the Pakistan government which appear promising. A.I.D. has sponsored Pakistani and Egyptian participants to training and site visit programs of the American Wind Energy Association. In Egypt, A.I.D. programs have furthered the commercialization of wind and solar technologies through field demonstrations, training, and information programs. The potential for wind energy in Egypt is especially evident. Consequently, in seeking to promote commercial wind energy development, the A.I.D. Mission recently conducted a technical and economic assessment of the feasibility of wind development in the Red Sea coast region of Egypt. The Mission is reviewing this report and considering next steps.

VITASAT AND RENEWABLE ENERGY APPLICATIONS

SENATOR HATFIELD: With increased concerns about transferring technology, AID was directed to support the efforts of the PACSAT, now VITASAT, low orbit satellite information system as a way to more effectively assist Third World countries in using renewable energy. The aim was to help insure the long term maintenance of renewable energy, health and agricultural systems. Has AID supported the PACSAT project?

MR. BISSELL: A.I.D. has not yet made a decision on support for the PACSAT program but is actively looking for useful applications of the technology in our programs. Since receiving a proposal from VITA several months ago, the Agency has held technical discussions with VITA on the capabilities of the system. (Some of those capabilities will not be clarified until after prototype earth stations are tested, in the Fall of 1990.)

At the same time, we have sought to assess Mission interest in participating in the PACSAT demonstration. We have asked all A.I.D. Missions to determine whether PACSAT could help them in their current or planned projects. The Missions' responses are being received and we expect to make a decision on direct support to PACSAT within the next few weeks.

Meanwhile, A.I.D.'s three-year, $1,050,000 grant to VITA contains a provision that allows VITA to meet its requirement for a matching amount by including privately-generated funds up to $10,000 for each of 30 satellite ground stations. The grant period is August 10, 1988 to April 30, 1991. It is possible that the grant may be extended for an additional year, due to delays in implementing the PACSAT program.

VITASAT is the name VITA uses for the proposed operational satellite system, with a capacity for up to 1,000 earth terminals, which VITA hopes to deploy in 1992-93. PACSAT remains the title of the present demonstration system, which serve only 36 terminals, worldwide.

We feel that our actions to date are responsive to the recommendation of the House Appropriations Committee.

BIOMASS-POWERED TURBINES AND BIOMASS CROPS

SENATOR HATFIELD: New solutions are evolving which utilize renewable energy applications as a way to mitigate greenhouse gas emissions and radical deforestation. Since some of A.I.D.'s directives have been to deal with these issues, what progress has A.I.D. made in implementing renewable energy strategies utilizing gas-injected biomass turbines and new biomass crops as buffers in areas where radical deforestation is taking place, or as ways to mitigate fossil fuel burning?

MR. BISSELL: Since 1987, through its biomass project, A.I.D. has funded research into powering high-efficiency U.S. gas turbines with biomass fuels. The objective is to accelerate the adaptation of this energy conversion technology to use the vast quantities of agricultural processing residues and biomass wastes now under-utilized throughout the developing world. The research has been done through agreements with Princeton University, the Jamaica Sugar Industry Research Institute, and others, and the results have been widely publicized.

Growing "new" crops in buffer zones near areas undergoing serious deforestation, to serve as energy resources, holds some promise but the dynamics of deforestation are quite complicated. A.I.D. is not involved currently in energy plantations as such, but promotes the use of mutlipurpose trees as part of farming systems. Such agroforestry efforts supply not only firewood, but also fodder for livestock, timber, fruits, nuts, and other products. Thus they help to meet developing country peoples' needs for fuelwood and provide an alternative to slash-and-burn agriculture, the primary cause of deforestation in most tropical countries.

In Asia, for example, twelve countries are participating in a regional research network for developing multi-purpose tree species.

DIESEL GENERATORS AND FUEL

SENATOR HATFIELD: What percentage of funding for A.I.D. energy projects goes toward diesel generators and fuel?

MR. BISSELL: We can find no evidence that funds from A.I.D. energy projects are used for the procurement of diesel generators

and fuel. The Agency is playing a lead role, however, in a cooperative effort with the World Bank and other donors in determining the reasons for inefficient operation of diesel units located in isolated areas and in making recommendations for improvements.

QUESTIONS SUBMITTED BY SENATOR LEAHY TO BRENT BLACKWELDER

Mr. Blackwelder, you have said how cost effective energy conservation and efficiency is. If that is true, what is the problem? What arguments do AID or the World Bank give for not strongly supporting such programs? How do you reply to those arguments?

DR. BLACKWELDER: There are several reasons for the why AID and the multilateral development banks do not devote significant sums to energy conservation efficiency despite its cost effectiveness. First, some bank officials argue that the multilateral development banks cannot get involved in loaning for a large number of small energy conservation projects. They say that these banks have a "comparative advantage" in financing big energy projects. Furthermore, they also assert that it costs as much to manage one big project as it does to manange one small one. Our reply is that the banks need not and should not be involved in the actual distribution or installation of energy efficient equipment and devices. Rather the banks could make loans to a country which would provide then the money to a utility or an industry group or some entity which has the local capacity on a regular basis to carry out distribution or installation of equipment. In addition, the assertion about managerial costs of managing small projects is mistaken because managerial and oversight techniques should be adjusted to the lending portfolio. In the energy area this portfolio should consist primarily in loans for energy efficiency improvements because such loans are the most cost-effective and can really make the most decisive contribution to solving energy problems. The banks should not use phony managerial arguments to refrain from making these highly desirable investments.

Another argument given by bank officials is that energy conservation cannot do the entire job, so we still have to finance big energy supply projects. Our answer is that with limited money to spend, the most cost-effective energy investments should be made, especially when these investments avoid the tragic social and environmental impacts of big dams and power plants. Energy conservation investments made a decisive difference in the United States where we use roughly the same amount of energy we did in 1973 even though the economy is 40% larger. The same success is awaiting developing countries which could be launched into efficient operations and avoid the serious problems which many industrial countries have gone through.

Mr. Blackwelder, I remember hearing three or four years ago about World Bank projects in Brazil and India and elsewhere that were causing massive environmental damage. Are those kinds of things still going on?

If the US executive director believes a project will harm the environment, what can he do about it? Is the US executive director there to represent US interests, or the World Bank's interests?

How aggressively are the Treasury Department and the US executive directors pushing the MDB's on environmental issues?

DR. BLACKWELDER: I regret to say that the World Bank continues to finance socially and environmentally disastrous projects around the world despite the strong efforts made by the United States, through the Congress and the U.S. Executive Director and citizen groups. The World Bank has funded a project in Guinea which will finance the destruction of tropical forests. The World Bank has financed two big dams in Mexico which are displacing over 1000 people against their will. The World Bank has not pulled out of the expensive and socially disruptive Narmada Project in India. Tens of thousands of citizens have protested the blatant injustices involved in displacing almost 200,000 people with the first two major dams (Sardar Sarovar and Narmada Sagar) in this immense project. One of the impacts of the Narmada project will be to flood out more forest lands in a country which urgently needs major reforestation.

The U.S. Executive Director can vote against environmentally unsound projects at the World Bank, but since we have less than one fifth of the voting power, we cannot by ourselves halt a loan. The Executive Director thus has to lobby other executive directors to convince them to support our position. This is difficult to do since the executive directors generally have only two weeks to review a loan prior to voting. Other countries have expressed sympathy to the environmental issues we raise, but when it comes time to vote, they have not supported the United States. Our judgment is that in any disputed project the executive directors in other major donor countries are almost always going to support the recommendations of the World Bank staff and not the position of the U.S. Executive Director.

The U.S. Executive Director and the Treasury Department have done a good job in raising key environmental issues. For example, earlier this year Director Coady raised the serious problems with the tropical forest loan to the Ivory Coast at a meeting which he convened with other executive directors. This sort of initiative should be encouraged.

Mr. Blackwelder, what is the attitude of the World Bank towards the kinds of energy and forestry activities in our legislation? Is the World Bank supporting projects to improve energy efficiency and stop deforestation?

How much of its budget could be said to be directly helping to reduce global warming?

DR. BLACKWELDER: The World Bank has generally taken a very hostile stand against energy conservation and efficiency and has dragged its feet in addressing global warming. At a number of sessions with former Senior Vice President David Hopper, he belittled efforts to get the Bank involved in energy conservation, told the environmentalists meeting with him that we were depriving countries of their Grand Coulee Dams, and said that the Bank would study global warming but not do anything about it until New York City did.

Although other people at the World Bank feel differently and strongly support energy conservation initiatives, they are not in positions of power to bring about such changes in energy lending.

In 1989 only 3% of the Bank's energy lending went for energy conservation and efficiency. They rest went to projects, the majority of which will aggravate global warming. So the World Bank is a source of the problem, not a solver of the problem. We urge the Congress to recognize the fact that the World Bank is financing the acceleration of global warming.

When the Bank's energy lending is combined with its forestry lending, a very bleak picture emerges. The forestry loans, some of which are described in my written testimony, are actually serving to further tropical forest loss. Thus, we really believe that the World Bank is serving as one of the engines of global warming.

Mr. Blackwelder, as someone who watches AID's performance closely, how would you describe the attitude there. Is AID moving full speed ahead to implement our global warming legislation, or is it dragging its feet?

Where are the obstacles--is it just too little resources or a lack of will?

Where do you think AID is strongest, and where is it weakest, in implementing the energy and forestry provisions?

Are there regions or countries that are not getting the attention they should be getting? What should AID be doing there?

I would especially like your views on Asia, the Near East and Europe, where AID is spending the bulk of its budget for these activities.

DR. BLACKWELDER: We would like to respond to several parts of this question and have NRDC respond to others.

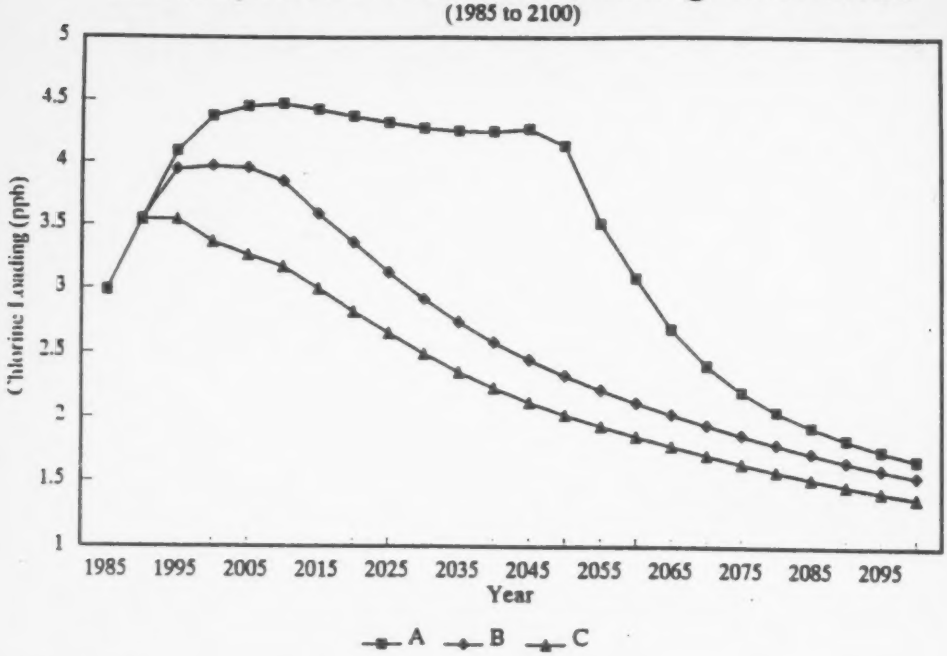
There is a continuing need to get a far greater percentage of AID's energy funding devoted to energy conservation and efficiency. In particular, a cornerstone of all development assistance to East Europe should be to make these countries more energy efficient, and these countries are big wasters of energy. For instance, Hungary uses 2.5 times as much energy per unit of output as the United States and 7 times as much as Sweden or France. Such a step toward energy efficient products would dramatically reduce air pollution as well.

It is vitally important that all steps be taken to ensure that private sector energy investments in East Europe go to energy conservation measures. For example, General Electric with backing from OPIC is going to retrofit eleven light bulb plants in Hungary, but not to manufacture energy conserving compact fluorescents. Each such compact fluorescent plant, whose cost is roughly $7 million can save so much energy through its efficient products as to avoid the need to build a $500 million fossil fuel power plant.

Friends of the Earth is particularly concerned that AID's Asia/Near East Bureau has anti-environmental leadership at the top and in our annual statement to the Senate Appropriations Committee we will be stating our concerns in much more detail. At this point we are concerned that U.S. financial assistance to East Europe will be controlled by the Asia/Near East Bureau which will lack the sensitivity and the desire to address the urgent and pressing environmental problems in East Europe.

Atmospheric Chlorine Loading Scenarios

(1985 to 2100)



SCENARIOS:

A: CFC Freeze in 1989, 20% Reduction in 1993; 85% in 1997; Phaseout in 2000.
Carbon Tetrachloride Freeze in 1992; 85% in 1995; Phaseout in 2000.
Methyl Chloroform Freeze in 1992; 50% in 2000; Phaseout in 2050.
HCFCs (Two Chlorines per Molecule) Substitute for 30% of CFC Reductions.
HCFC Phaseout in 2050.
100% Global Compliance With 15% of This Delayed for 10 Years.

B: CFC Freeze in 1989, 50% Reduction in 1992; 85% in 1995; Phaseout in 2000.
Carbon Tetrachloride Freeze in 1992; Phaseout in 1995.
Methyl Chloroform Freeze in 1992; 50% in 1995; 85% in 1997; Phaseout in 2000.
HCFCs (Two Chlorines per Molecule) Substitute for 25% of CFC Reductions.
HCFC Phaseout in 2010.
100% Global Compliance With 15% of This Delayed for 10 Years.

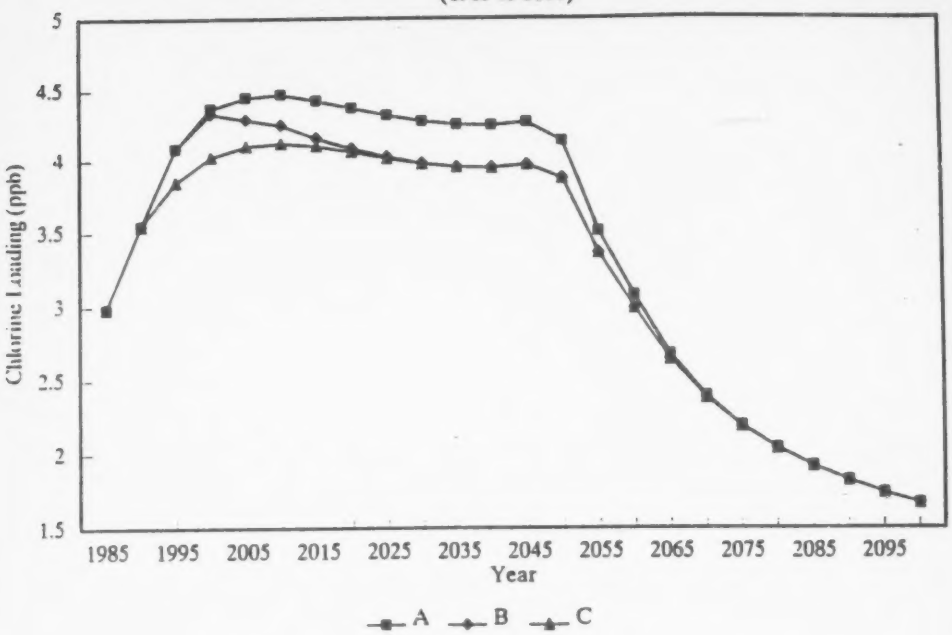
C: CFC Freeze in 1989, Phaseout in 1992.
Carbon Tetrachloride Phaseout in 1992.
Methyl Chloroform Phaseout in 1992.
HCFCs (One Chlorine per Molecule) Substitute for 10% of CFC Reductions.
HCFC Phaseout in 2010.
100% Global Compliance With 15% of This Delayed for 5 Years.

ASSUMPTIONS FOR ALL SCENARIOS:

CFC Reductions are Referenced to 1986 Levels.
Carbon Tetrachloride and Methyl Chloroform Cuts are Referenced to 1989 Levels.
HCFC Substitutes Have a Lifetime of 8.4 yr and a Molecular Weight of 136.5.

Atmospheric Chlorine Loading Scenarios

(1985 to 2100)



SCENARIOS:

A: Methyl Chloroform Freeze in 1992; 50% in 2000; Phaseout in 2050.

B: Methyl Chloroform Freeze in 1992; Phaseout in 2000.

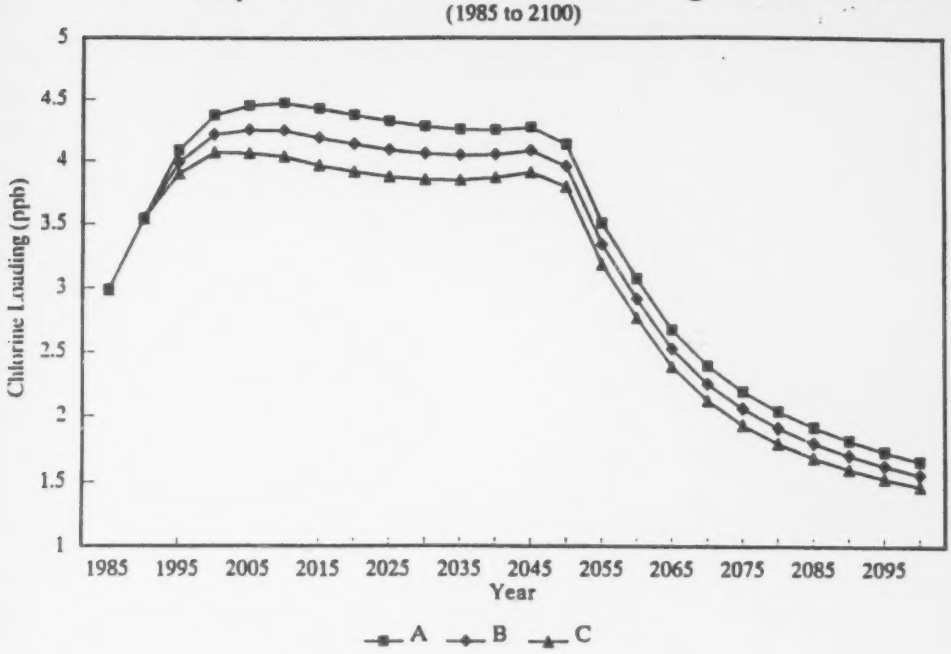
C: Methyl Chloroform Phaseout in 1992.

ASSUMPTIONS FOR ALL SCENARIOS:

CFC Freeze in 1989, 20% Reduction in 1993; 85% in 1997; Phaseout in 2000.
Carbon Tetrachloride Freeze in 1992; 85% in 1995; Phaseout in 2000.
HCFCs (Two Chlorines per Molecule) Substitute for 30% of CFC Reductions.
HCFC Substitutes Have a Lifetime of 8.4 yr and a Molecular Weight of 136.5.
HCFC Phaseout in 2050.
100% Global Compliance With 15% of This Delayed for 10 Years.
CFC Reductions are Referenced to 1986 Levels.
Carbon Tetrachloride and Methyl Chloroform Cuts are Referenced to 1989 Levels.

Atmospheric Chlorine Loading Scenarios

(1985 to 2100)



SCENARIOS:

A: CFC Freeze in 1989, 20% Reduction in 1993; 85% in 1997; Phaseout in 2000.

B: CFC Freeze in 1989, 50% Reduction in 1992; 85% in 1995; Phaseout in 2000.

C: CFC Phaseout in 1992.

ASSUMPTIONS FOR ALL SCENARIOS:

Carbon Tetrachloride Freeze in 1992; 85% in 1995; Phaseout in 2000.
Methyl Chloroform Freeze in 1992; 50% in 2000; Phaseout in 2050.
HCFCs (Two Chlorines per Molecule) Substitute for 30% of CFC Reductions.
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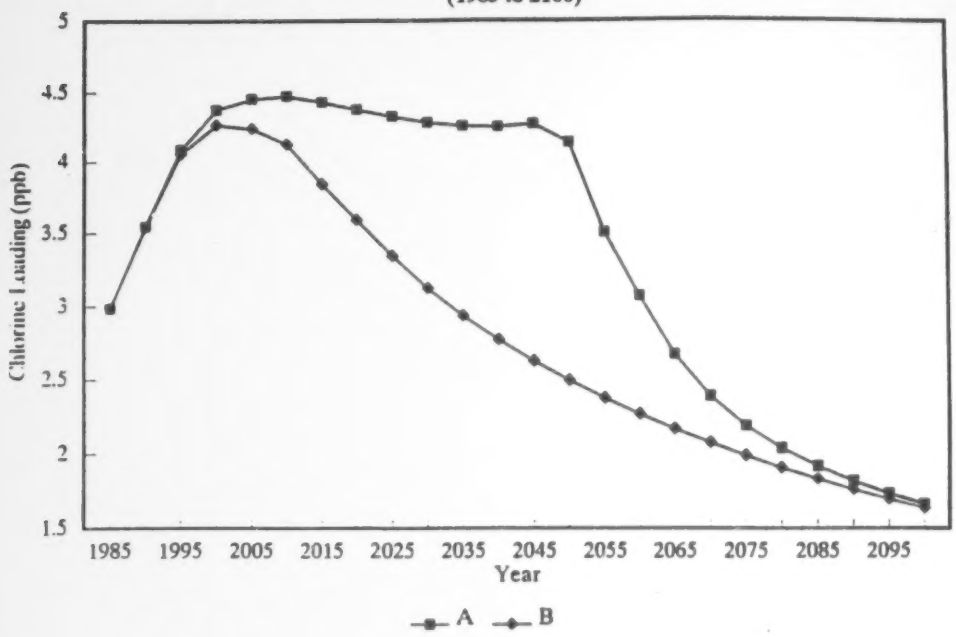
CFC Reductions are Referenced to 1986 Levels.
Carbon Tetrachloride and Methyl Chloroform Cuts are Referenced to 1989 Levels.

Atmospheric Chlorine Loading Scenarios

(1985 to 2100)



SCENARIOS:

A: HCFCs (Two Chlorines per Molecule) Substitute for 30% of CFC Reductions.
HCFC Phaseout in 2050.
Methyl Chloroform Freeze in 1992; 50% in 2000; Phaseout in 2050.

B: HCFCs (One Chlorine per Molecule) Substitute for 10% of CFC Reductions.
HCFC Phaseout in 2010.
Methyl Chloroform Freeze in 1992; 50% in 2000; Phaseout in 2010.

ASSUMPTIONS FOR ALL SCENARIOS:

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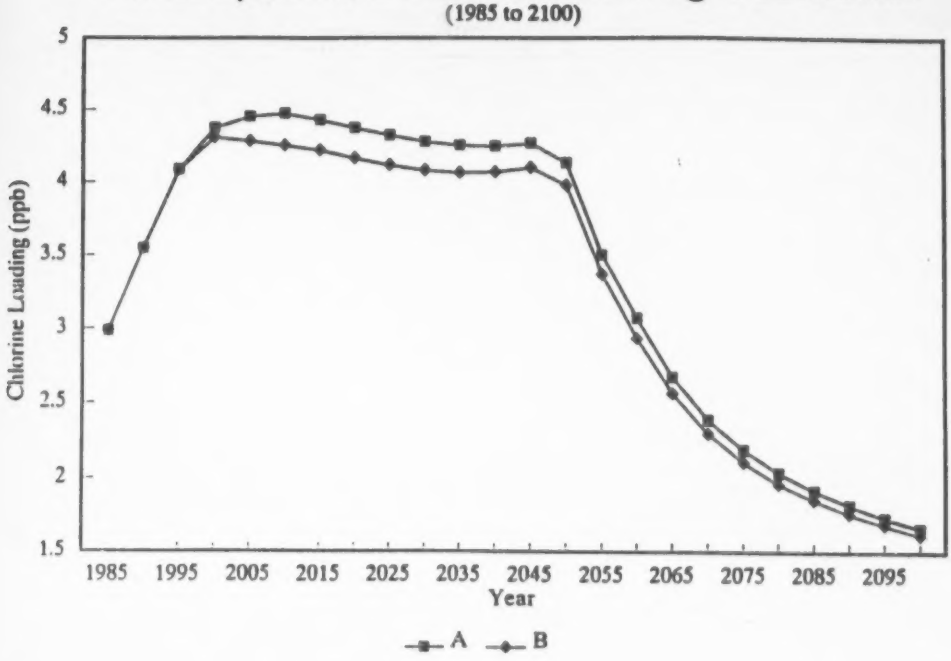

SCENARIOS:

A: 100% Global Compliance With 15% of This Delayed for 10 Years.

B: 100% Global Compliance With 15% of This Delayed for 5 Years.

ASSUMPTIONS FOR ALL SCENARIOS:

CFC Freeze in 1989, 20% Reduction in 1993; 85% in 1997; Phaseout in 2000.
Carbon Tetrachloride Freeze in 1992; 85% in 1995; Phaseout in 2000.
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CFC Reductions are Referenced to 1986 Levels.
Carbon Tetrachloride and Methyl Chloroform Cuts are Referenced to 1989 Levels.

WORLD BANK ENVIRONMENTAL FUND

Mr. Blackwelder, please give me your opinion about the World Bank's proposed new "environmental fund." What do you understand the purpose of this fund to be and why is a separate fund necessary?

Does the World Bank have the necessary staff and guidelines to ensure that these funds are used in ways that protect, as opposed to just exploit, natural resources?

What can the Congress do to help ensure these funds are spent wisely?

DR. BLACKWELDER: In February of this year the World Bank released a paper to the U.S. Executive Director which proposed the establishment of a global environmental fund. While we are very pleased to see the interest in establishing such a fund, we have grave doubts about the Bank's ability to administer such a fund without some fundamental changes in current Bank policies being implemented. Not only did the Bank not consult with NGOs in the design of the proposal, but as far as anyone can tell, no one was consulted, not even key environmental staff at the Bank and certainly not the borrower or donor countries.

As this Committee knows, the World Bank responded to growing pressures for action on the problem of global warming by suggesting that a special fund be established at the Bank to deal with the problem. When the money was not forthcoming, the Bank felt it had the perfect excuse for washing its hands of any further responsibility.

We are concerned that the Bank might use the same tactic in proposing a global environment fund. Is this fund a way for the Bank to try to escape its environmental responsibilities? We hope not. The Bank must harmonize its lending program with its stated environmental objectives. The proposal for this fund repeatedly emphasizes that environmental money would be provided in addition to existing Bank funds. A separate fund for the environment, while a very desirable and much needed idea, might be the wrong solution for the World Bank. Environmental concerns can not be relegated to a separate place in the Bank's operation, but must be an integral part of its overall operation.

This Committee could inquire about how the fund will operate, whether projects financed through this fund will involve NGOs in their planning, whether these projects will be subject to the environmental assessment process, and whether they will have to comply with all Bank environmental guidelines.

Mr. Blackwelder, can you name some recent examples of successful energy or forestry conservation projects, by either AID or the World Bank, or any other agency?

DR. BLACKWELDER: I have attached several examples of successful forestry and energy projects from our publication "Bankrolling Successes". The purpose of this publication is to demonstrate through examples the kind of development projects which are environmentally sustainable. Helena Norberg Hodge has shown how a variety of solar energy projects can provide substantial benefits for the people in the Northern Indian state of Ladakh.

In the United States we have many examples of successful institutional investments in energy conservation. These success stories could be replicated at similar institutions through the world. For instance, the University of Rhode Island installed efficient lights on its campus and saved over $100,000 the first year. Just installing compact fluorescent bulbs behind 'Exit' signs saved $25,000 a year.

Bankrolling Successes: From the Environmental Policy Institute and National Wildlife Federation

(By Walter V. Reid, James N. Barnes, and Brent Blackwelder)

The information and technologies that form the basis of ecologically sustainable development already exist. New technologies and further environmental research will aid development, but considerable success can be achieved by incorporating known ecologically sustainable development strategies. To meet the needs of growing populations, existing systems must be used more efficiently and the productivity of agriculture, forests, rangelands, and fisheries must be raised.

Increasing Efficiency

Significant improvements can be made in efficiency in numerous areas, from industrial uses of raw materials to the harvesting and processing of foods. But the potential benefits are most obvious in the energy sector. In 1981, for example, low-income developing countries spent 61 percent of their export earnings on oil imports. Using oil more efficiently would alleviate a portion of the debilitating balance of trade deficits that plague most of the Third World.[42] Better use of renewable energy resources would have even more direct impacts. Biomass (mostly wood) accounts for nearly 40 percent of energy use in developing countries; increased efficiency of use could lessen the many problems associated with deforestation.[43] Nevertheless, less than 1 percent of all international aid has been earmarked to improve energy efficiency. Not surprisingly, therefore, relatively few development projects take advantage of efficiency gains.[44]

The absence of energy efficiency projects from development portfolios cannot be attributed to economic or technological shortcomings. When properly implemented, projects stressing energy efficiency can succeed and help both the industrial sector and the rural poor. Energy-efficient wood and charcoal stoves lessen pressures on forests, ease the workload of rural women, and stretch the income of the urban poor. "Improved" cookstoves have been one of the most widely heralded yet ultimately disappointing appropriate technologies for the Third World. Numerous designs developed in the early 1970s offered energy savings of 20 to 30 percent over the common open fire or traditional stove. With extremely few exceptions, attempts to increase efficiency through the introduction of such stoves have failed. As of 1984, only 10 percent of the nearly 100 major woodstove projects in developing countries had survived for more than two years.[45] Failure can be traced to higher than anticipated costs, technical problems with design, incompatibility with cultural preferences, and inadequate dissemination strategies. Several stove projects are succeeding, however, most notably the ASTRA project in Karnataka, India; the CILSS/VITA project in Burkina Faso, Mali, and Niger; and the charcoal stoves project in Kenya (Box 9).

Energy-efficient technology, despite its net savings, tends to require initial capital investments that poor people cannot afford. Even when fuelwood is scarce, it is often still "free," and people who cannot afford a fuel-efficient stove have no choice but to spend more time gathering wood. Such considerations should not limit the adoption of energy-efficient technologies in more expensive consumer goods and in the industrial sector. In India, for instance, the fuel economy of new passenger cars has increased from 21-24 miles per gallon to 40.[46] However, only limited advances have been made in these areas despite studies showing the potential for substantial economic savings. One study in Brazil has shown that spending less than $10 billion on domestically produced energy-efficient technologies would eliminate the need for some $44 billion of additional electrical capacity between 1985 and 2000.[47]

Development banks are making faltering steps in the direction of end-use efficiency. For example, a World Bank project under way in Jamaica will result in efficiency-labeling of appliances to provide consumers with information about energy costs.

Energy conservation and renewable energy sources can also be profitable investments. In Djibouti, a VITA project developed a national energy plan promoting the use of energy conservation to lessen dependence on foreign oil imports (Box 10). Again, the cost of renewable energy technology often limits the beneficiaries to the middle and upper class. However, rural villagers who are not desperately poor can afford passive solar technologies. In Ladakh, a high-altitude desert in India, villagers are installing Trombe walls that efficiently capture solar energy in order to lower their fuel costs (Box 11).

Hydropower has received substantial attention from the MDBs, but unfortunately the scale of the projects pursued (often for reasons other than electrical generation) frequently result in net losses when environmental and human costs are considered, as noted earlier. Nevertheless, hydropower—particularly small-scale systems—can still play a significant role in developing countries. In Nepal, a project supported by United Missions of Nepal and the Swiss government led to the installation of 450 small-hydro turbines in rural areas to provide mill power for the processing of crops. Nine local companies are producing parts and installing turbines, and sites for installing as many as 700 new turbines may be suitable.[48]

Raising Productivity

Generalizations about the potential for environmentally sustainable increases in Third World crop, forest, and range production are of limited use. Asian countries, with 77 percent of arable land under cultivation, face different problems than Latin American and African nations, where less than 25 percent is cultivated. Many areas of Africa, with a relatively equitable distribution of land, can institute programs that would be of little value in Latin America, with extremely inequitable land tenure. These demographic and political realities overlay the fundamental ecological constraints of soils, water, and climate. The green revolution in Asia, heavily dependent on irrigation, cannot be repeated in sub-Saharan Africa, where little irrigation is possible.

Nevertheless, two generalizations can be made about

efforts to increase resource productivity. First, significant advances can be achieved in agricultural, forest, and range productivity in all developing countries at extremely low capital costs through soil conservation techniques, intercropping, agroforestry, and organic fertilization. Second, even under the best of circumstances, the low-cost strategies currently in use will not be sufficient to meet the needs of the world population expected by 2050. Research into new technologies for the rural poor is essential.

Many examples can be cited of the large untapped potential for sustainable increases in forest, range, and agricultural productivity through low-cost changes in agricultural practices. The Majjia Valley windbreak project, Plan Sierra, and the Sukhomajri Watershed Restoration profiled earlier all provide evidence of productivity gains through soil conservation and agroforestry. In Kenya, a project funded by the Swedish International Development Agency (SIDA) resulted in the adoption of soil conservation practices, primarily terracing, on more than one-third of the nearly 1.5 million small farms between 1974 and 1985. A SIDA evaluation indicates that crop yields may be boosted by 30 to 60 percent and farm gross margins by 66 to 104 percent as a result.[49] In the Yatenga plateau of Burkina Faso, Oxfam began a project in 1979 that built stone lines oriented along contours to slow runoff, and crop yields have increased by an average of 50 percent.[50] In the Guinope area of Honduras, the introduction of contouring and organic fertilizers increased crop yields by up to 400 percent (Box 12).

[redacted] modified jiko rather than attempt to introduce an entirely new design. In 1983, two prototype stoves were tested in 450 households in Nairobi and Mombasa. The researchers worked closely with metal and ceramic artisans to develop a durable product that could be standardized and manufactured easily. Information from both producers and users was integrated into the final stove design.

The project provided training and credit to artisans and demonstrated the stoves at exhibitions and on TV and radio to encourage demand. By early 1985, some 50 enterprises were producing the ceramic liners of 2000-plete stoves, and at least 22 wholesalers were distributing them to more than 73 retail distribution points. The efficiency is 29 to 30 percent and, although it costs two to three times more than the traditional jiko, the improved version lasts twice as long. For the average Nairobi family, the stove can pay for itself in only a month. Even so, the stove costs enough that low income households have been slow to adopt it.

SOURCES: Baldwin et al., 1985; Harrison, 1987, pp. 210-216; Lyman, 1986, 1987; Manibog, 1984; Opole, 1987; [redacted]

[redacted] Despite substantial evidence that financially and technically attractive energy conservation potential exists in developing countries, new projects in this field are [redacted] appearing. Large industrial projects are now under [redacted] in Pakistan and the Philippines, but it is too early to [redacted] itself. [redacted] examples from on-going and completed [redacted] attest to the potential gains from conservation and increased end-use efficiency.

In Djibouti, a project initiated in 1982 developed a national energy plan based on a 1984 country-wide energy assessment. Funds were provided by the U.S. Agency for International Development (AID) and by Volunteers in Technical Assistance. The potential for saving 20 to 30 percent of energy use through conservation was identified in residential, public, and commercial sectors, particularly involving air conditioning, refrigeration, lighting, ventilation, architectural design, and household fuels. Because of subsidies provided by France, many energy bills in Djibouti have not reflected true costs and this has contributed to low efficiency. As part of the national energy plan, the price structure is now being revised to encourage conservation.

A U.S. AID project in Pakistan was launched in 1986 to develop a National Energy Conservation Program. One of the components is a boiler/furnace tune-up program. The initial 23 tune-ups produced average efficiency improvements of 10 percent per combustor, yielding savings worth $250,000. By project completion, some 600 tune-ups are scheduled.

In Costa Rica, the transportation sector accounts for 65 percent of oil products used, one of the highest in the world. U.S. AID established a pilot project in 1985 to demonstrate the potential energy savings through [redacted] fuel conservation measures in the bus and taxi [redacted]. By providing proper maintenance for the vehicles and training in fuel-efficient driving, savings of 10 to 17 percent in fuel costs were achieved. Nationwide, a 17-percent drop in transport fuel consumption would translate into annual savings of some $17 mil[redacted] [redacted] of efficiency [redacted] and [redacted] recent U.S. AID projects covering five Central

American countries—the Fuelwood and Alternative Energy Project (FWAE) and the Industrial Energy Efficiency Project—are being implemented by the Central American Research Institute for Industry. Industrial efficiency improvements have saved at least $2 million annually, roughly two-thirds of the total expenditure of the five-year project. The savings should mount as industries continue implementing energy audit recommendations. FWAE has examined the potential use of numerous alternative energy sources, including a variety of solar technologies. In Guatemala, small solar salt evaporators have brought a new industry to coastal residents.

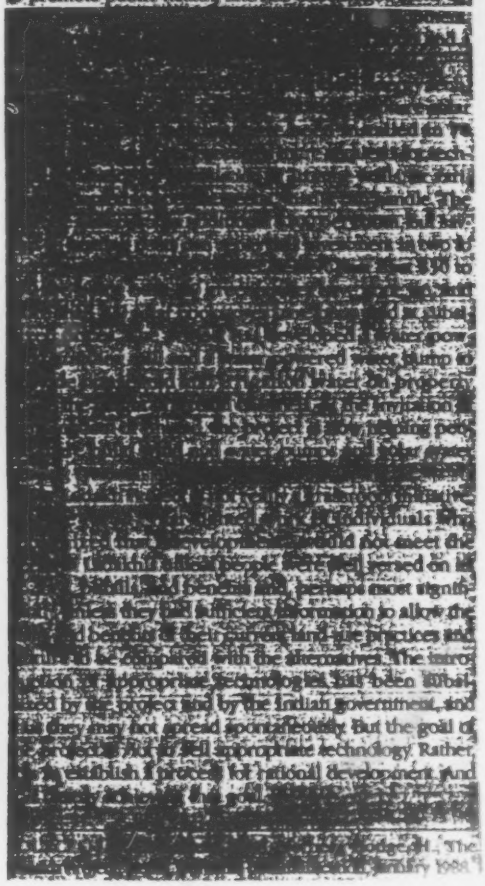
SOURCES: Hagler, Bailly & Co., 1986; Streicher, A., Hagler Bailly & Co., Washington, D.C., personal communication, June 1988; Williams, L.E., Volunteers in Technical Assistance, Arlington, Va., personal communication, June 1988.

Ladakh is a high-altitude desert in the Indian state of Jammu and Kashmir, covering 104,000 square kilometers on the western edge of the Tibetan plateau. The region is home to 120,000 people living in scattered villages at elevations of 11,000 feet or more. They grow wheat and barley in small terraced fields and keep a few animals that are allowed to graze during the summer, when pasture is available. In 1962, when mountain Ladakh with the rest of India, [illegible] was confronted with the forces of modernization. In general, the traditional culture is still strong today and the people enjoy a relatively high standard of living. But population growth and changes in land-use practices are now straining available resources.

The Ladakh Project was founded in 1978 by a Swedish linguist to enable local people to make more informed choices about their future and to help them maintain the diversity of their culture and environment, if these were goals they desired. The project [illegible] information on both the negative and [illegible] development, in order to balance the almost exclusively positive images Ladakhis are exposed to in the media and tourism. It spawned the [illegible] Ladakh Ecological Development Group (described [illegible]) and a Centre for Ecological Development, [illegible] created by Indira Gandhi to provide a central coordination site for the largely community-based activities. The Centre has served as an outreach [illegible]

[illegible] to much of the remainder of [illegible] something of a tourist attraction. The building is solar-heated, electricity is provided by wind generation and solar cookers, dryers, and a greenhouse are planned nearby.

The Ladakh Project organizes meetings [illegible] Ladakhis to discuss development options. [illegible] gives special attention to [illegible] sustainable agriculture. The project has [illegible] to promote public health, and has [illegible]



[illegible] Hodge, H., The [illegible] January 1988.

QUESTIONS SUBMITTED BY SENATOR LEAHY TO GLENN PRICKETT

AID's Global Warming Initiative

1. "Is AID moving full speed ahead. . .or is it dragging its feet?"

If we are still asking ourselves this question nearly one year after the Subcommittee instructed AID to undertake the Global Warming Initiative, the answer is clear. AID has not established global warming as a top priority. Despite some progress, AID has been slow to develop new energy and forest conservation programs in the key countries. In fact, despite repeated reminders from this Subcommittee, AID did not furnish a report to Congress identifying the key countries until July, fully three months after the April 15 deadline. Moreover, that report did not outline concrete action plans for key countries. Rather, it attempted to stamp a "global warming" label on existing planned programs.

On the administrative side, the situation is somewhat better. Responding to the Congress's instructions, AID has committed to hire at least 20 new energy and environment staff throughout the agency for each of the next three years. The Congress's authorization to use program funds for this purpose has been especially helpful in this regard. In a July 31 letter to me, Administrator Roskens pointed out that taking on direct-hire staff, rather than contractors, will require an indication from the Congress that this authority will be extended. NRDC urges the Subcommittee to renew this authorization in its FY 91 bill.

2. "Where are the obstacles -- is it just too little resources or a lack of will?"

As with all AID programs, limited resources are a problem. Consequently, NRDC recommends that the Congress double the amount appropriated this year for increased energy and forest conservation activities under the Global Warming Initiative. AID should be expected to demonstrate a $30 million increase in its energy and forest conservation activities in FY 91 over FY 90 levels.

AID's failure to identify aggressive energy conservation projects in the key countries of Indonesia, the Philippines, and Poland, as described below, does suggest a lack of will among the local missions and the ANE Bureau here in Washington. In Latin America, several small energy conservation initiatives are underway or planned for Brazil and Central America. However, in Central America these small programs have been managed almost entirely by the Office of Energy here in Washington. The local missions have a clear bias against funding energy work. This is clearly a "will" problem that must be corrected if the Global Warming Initiative is to be effective in Latin America.

"Are there regions or countries that are not getting the attention they should be getting? What should AID be doing there?"

As I point out in my written statement, AID has so far failed to initiate urgently needed end-use energy efficiency activities in Indonesia and Poland, both key countries. Also, it appears that AID may phase out its energy efficiency work in the Philippines, another key country. As I recommend in my statement, AID should move quickly to develop energy efficiency projects in each of these countries, particularly in Indonesia and the Philippines where national energy conservation programs already exist.

4. "What advice can you give us on how to improve on last year's bill, especially the sections concerning AID?"

The basic Global Warming Initiative instructions in last years bill are good. NRDC recommends that the Subcommittee repeat those instructions in its in FY 91 bill, continuing the authorization for global warming activities in key countries and the authorization to use program funds to hire new energy and environment staff.

We also recommend that the Subcommittee include a $30 million incremental earmark for the Initiative, to provide for increased energy and forestry conservation programs in FY 91. It is critical that new global warming activities in key countries not detract from AID's existing environment and natural resources portfolio.

I would like to propose one new initiative that AID's Office of Energy should be directed to undertake under the Global Warming Initiative. Despite the detailed instructions of this Subcommittee over the years with regard to the energy programs of the MDBs, energy conservation projects are still rarely funded. As I point out in my written statement, using the example of India, AID is well positioned to help the MDBs develop innovative energy efficiency projects. NRDC recommends that the Office of Energy be directed to establish a $5 million "Sustainable Energy Feasibility Fund" to assist the MDBs in identifying and developing energy efficiency and renewable energy projects. The Office should be encouraged to solicit contributions to this Fund from other U.S. agencies, including DOE and EPA, as well as other donor governments.

In its oversight capacity, the Subcommittee should focus in the coming fiscal year on ensuring that AID implements the existing Congressional instructions. Now that AID has identified the key countries, work should begin immediately on comprehensive energy and forest conservation programs in those countries. As specified in last year's legislation, AID's energy program in each key country should include analytical work on a "least-[illegible]" energy plan for that country, focussing on end-use energy efficiency and renewable energy. The Subcommittee should expect to see energy and forest conservation action plans for each key country presented with the Agency's FY 92 Congressional Presentation, if not sooner.

5. "What arguments do AID or the World Bank give for not strongly supporting. . .[energy efficiency] programs?"

Fortunately, as I point out in my written statement, we have turned the corner on the official position of the MDBs with regard to energy efficiency. The World Bank, the IDB, and the Asian Development Bank have all publicly committed to increased support for energy efficiency programs on both environmental and economic grounds. On a country-by-country level, however, there remain individual staffers who do not appreciate the significant opportunities for cost effective energy efficiency improvements. Consequently, they do not actively seek to develop energy conservation projects. The "Sustainable Energy Feasibility Fund" that I propose above for AID's Office of Energy would be especially helpful in this regard.

There are real institutional constraints to energy conservation projects at the MDBs, which last year's bill strove to address in calling for increased energy efficiency staffing and integrated technical assistance programs. The banks have made little progress in these areas. Here again, an AID feasibility fund, with grant funds and in-country technical expertise would be incredibly helpful.

6. ". . .can you name some recent examples of successful energy or forestry conservation projects, by either AID or the World Bank, or any other agency?"

In India, AID and the World Bank are off to a promising start on a joint energy efficiency program, working with several state electric utilities, energy-intensive industries and national development banks. I describe this program in detail in my written statement. In Brazil, the Bank this year approved a $30 million loan component to PROCEL, Brazil's national energy conservation program, which has proven to be quite effective in the past several years. The key to the success of these projects is the development of strong and effective local institutions to undertake detailed work with energy consumers. This should be the focus of AID and World Bank collaborative work in the energy sector.

World Bank Environmental Fund

1. "What do you understand the purpose of this fund to be and why is a separate fund necessary?"

As I understand it, the World Bank's proposed Global Environmental Facility (GEF) would support developing country efforts to combat global environmental problems, specifically ozone depletion, global warming, biodiversity loss, and international water resource issues. In principle, this fund would not support projects that could be justified on the basis of expected local environmental or economic benefits.

NRDC endorses the principle that additional aid resources be made available to help developing countries reduce their contributions to these global problems, particularly where the local benefits are small compared to costs. For example, in the case of AID's Global Warming Initiative, we recommend that the Congress make an additional $30 million available this year so as not to detract from AID's existing environment and natural resource programs.

However, the most promising means for developing countries to reduce greenhouse gas emissions and preserve biodiversity -- energy and forest conservation -- make sense for a host of local environmental and economic reasons. The World Bank should not be provided with extra resources to do what it is already obliged to do in these areas with existing resources.

In almost all cases, countries will require additional technical assistance to develop innovative programs in energy and forest conservation. In some cases, concessional financing may also be needed for demonstration or pilot projects. Additional concessional resources made available through the World Bank could be helpful in this regard. Such efforts would be most effective if undertaken in close coordination with other grant-based activities in borrowing countries, such as those of AID's Global Warming Initiative.

Generally, although NRDC supports the principle of additional funding, we have serious concerns about the quality of the Bank's proposed fund. A facility based on the Bank's existing flawed policies and practices in the areas of public participation and access to information would be counterproductive. Moreover, the Bank has so far demonstrated little ability to develop projects to address global environmental issues in its existing facilities. Any U.S. contribution to the Bank's proposed fund should be based on concrete demonstration of progress on both of these points.

2. "Does the World Bank have the necessary staff and guidelines to ensure that these funds are used in ways that protect, as opposed to just exploit, natural resources?"

You have hit upon one of the critical problems that the Bank has not yet addressed in its proposal. In general, NRDC is concerned that the Bank's proposal presents an unrealistic assessment of the Bank's capabilities to do this type of work. For example, the Bank's track record in energy and forestry does not suggest that it is well prepared to develop global warming and biodiversity projects. As I point out in my testimony, the Bank's is currently not structured to deliver end-use energy efficiency and renewable energy projects, even when economically justified. The Bank's forestry activities, currently on the increase, still promise to be agents of deforestation, rather than preservation and sustainable management of tropical forests.

For these reasons, NRDC has urged that U.S. support for the proposed GEF must be based on considerable improvements in the Bank's existing energy and forestry programs. New policy guidelines and increased staffing complements are urgently needed in both sectors. My written statement goes into detail on some of the needed reforms in these programs.

3. "What can the Congress do to help ensure these funds are spent wisely?"

The Subcommittee should instruct the Treasury to seek concrete commitments of reform from the Bank on its energy and forestry programs in any negotiations over establishment of the Green Fund. Because Bank management has already agreed to undertake reforms in these areas in the context of the IDA-9 replenishment, the U.S. has the right to expect concrete evidence of progress before we commit our scarce budget resources to a new fund at the Bank.

SUBCOMMITTEE RECESS

The subcommittee will stand in recess until 2:30 p.m., on Tuesday, June 5, when we will meet to hear testimony on managing U.S. foreign aid: Organizational and accountability.

[Whereupon, at 3:32 p.m., Tuesday, May 22, the subcommittee was recessed, to reconvene at 2:30 p.m., Tuesday, June 5.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

TUESDAY, JUNE 5, 1990

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:50 p.m., in room SD–138, Dirksen Senate Office Building, Hon. Patrick Leahy (chairman) presiding.

Present: Senators Leahy, Mikulski, and Kasten.

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF MARK L. EDELMAN, DEPUTY ADMINISTRATOR

ACCOMPANIED BY:

HERBERT L. BECKINGTON, INSPECTOR GENERAL
MICHAEL USNICK, COMPTROLLER

OPENING REMARKS OF SENATOR LEAHY

Senator LEAHY. Mr. Edelman, General Beckington, please come up, and I apologize for the delay. They changed the Senate schedule slightly, and it has thrown Senator Kasten, myself, and everybody else off a little bit.

As you know, the hearing today regards some very serious issues of management and accountability at the Agency for International Development, a matter of longstanding concern to the subcommittee. Going back over past hearing records I noticed that there have been strong statements made by Senator Inouye when he was chairman and Senator Kasten when he was chairman and by myself about this subject. As you must know, all three of us and most members of this committee are concerned about how management and accountability affects AID's operations.

I have gone over a stack of your inspector general reports and audits, General Beckington, as well as several GAO reports. Both the inspector general's reports and GAO reports are remarkably consistent in pointing to the same recurring management and accountability problems and bilateral development assistance programs over the years.

I think we have to discuss why these problems persist, what is needed to resolve them, especially in an era of shrinking budgets. The support for foreign aid is never the No. 1 area in the Congress. We do not find our constituents banging on the doors urging us to increase foreign aid. It is rare that we ever hear from anybody who

says anything except cut foreign aid, and I think that support is going to decline, actually, with the waning of the cold war and the security justification for sending money abroad. Continued reports of waste and fraud and abuse, the consequence in part of mismanagement and a lack of accountability, will only undermine support for foreign aid even more.

We are convinced here in the subcommittee that there are some systemic management and accountability problems at AID. I feel definitely that we can manage foreign aid much better than we do now, so the questioning will be blunt.

My aim is not to provoke confrontation. I am not here to gang up on AID, or look for a quick headline or anything else like that. AID has little constituency in Washington or the Nation. At the same time, however, it is given one of the hardest jobs to do around the world. But we have got to get at these management weaknesses or we are not going to be able to fund AID in the way that it should be. We are not going to be able to even give it the support necessary to minimally do the job it should.

We know AID operates in an extremely difficult environment around the world. I have visited some of those areas. I know it also has excellent people. I have met many of them. They are dedicated to development and helping the poor, and we also fully recognize that poor management and widespread waste, fraud, and abuse in foreign aid is not something exclusive to AID. Nor are the management problems the fault of AID itself. The State Department and Congress have compelled AID to do things that often do not contribute to good management.

I yield, of course, to Senator Mikulski and then, if you would, gentlemen, give brief oral statements so we can proceed to discussion and questions.

Senator MIKULSKI. Several of the issues that you raise parallel my own, and I am quite anxious to move more swiftly to the testimony then reserve comments as we proceed.

SUMMARY STATEMENT

Senator LEAHY. Mr. Edelman, if you would summarize your statement, and then General Beckington.

Mr. EDELMAN. Thank you very much, Mr. Chairman.

Let me first off say I did not hear you say a thing that I would disagree with.

I am pleased, Mr. Chairman and Senator Mikulski, to have this opportunity to discuss AID management issues with this subcommittee, and I am particularly pleased that you chose to hold a hearing on this subject. I believe it is the first time since Senator Kassebaum's hearings in April 1986 that anyone in Congress has focused attention on AID's management problems.

Dr. Roskens, the AID Administrator—who, as you know, is out of the country—and I, place the highest priority on improving the efficiency and effectiveness of AID. We are all very much aware of the many criticisms of foreign aid in general and of AID in particular. Indeed, I myself have noted the need to reexamine our overall foreign assistance program, and Dr. Roskens has spoken of the need to focus our priorities. But Dr. Roskens and I are talking

about the broad parameters of how we do business. When it comes to our day-to-day operations, I do not believe that, taken as a whole, AID programs waste money or are ineffective. There are, indeed, problems, but it is not even a matter of whether or not the glass is one-half empty or one-half full. I believe that the glass—the overwhelming predominance of the glass—is full, and most of our critics are focusing on what is a very small part of that glass.

Our share of worldwide assistance is only 21 percent, but we leverage our share by working with PVO's, universities, the Peace Corps, U.S. businesses, and other donors. We are also more effective because we have a network of overseas missions. However, unlike NASA, AID cannot and should not pursue a policy of zero errors. AID needs to play the role of an innovator and pathbreaker.

Because we rely on the support of others and because we are innovators we must be risk-takers. We want our successes to far outweigh our failures. but if we had no failures it would mean we are acting too cautiously. We know we must minimize our failures, but the costs of a zero-error rate I believe are much too high.

Let me cite just one example. In the early 1970's, a terrible drought hit the Sahel region of Africa, taking many, many hundreds of thousands, if not millions, of lives. The world was justifiably appalled at the loss. With the consent and at the direction of Congress, AID began intensive development work in the Sahel, which was a very high-risk enterprise. There were failures, but some of the things worked, and we learned by those failures.

These lessons paid off. The 1984–85 drought was by all measures even worse than the ones in the 1970's, but the fatalities were much lower, in part because of those lessons that we learned. For example, compared to the 1970's, where we had to airlift food in, no airlifts were required at all in the Sahel region in the drought of the last decade.

Because we know there will be failures does not mean we will accept them. We will act to minimize our problems, and I would like now to discuss briefly a few of those particular problems. I believe that we have been responsive to the GAO and the inspector general and I, at least, very much value their input.

We have taken steps to improve our financial accountability and management. We are replacing our accounting and management information system largely because of the shortcomings that they both identified. We are strengthening our internal control and audit followup, and I definitely agree with General Beckington that too often audits have been treated as isolated incidents when broader corrective measures were needed.

We are issuing new guidance on financial accountability for local currencies generated under assistance programs. We have merged the operating expense and program budget functions to allow closer integration of program activities with work force requirements. This will help us to better allocate staff and operating expenses both in Washington and in the field.

As my written testimony notes, I believe AID is not excessively dominated by Washington staff; 78 percent of our staff are in the field. Nonetheless, we want to do better. Dr. Roskens has initiated a major management review focused on streamlining procedures in Washington. A team of AID officials will examine reducing redun-

dancy between AID's central bureaus and the regional geographic bureaus. This will be followed by a comprehensive management review by an outside consulting firm. We hope to be in a position to implement needed changes by the beginning of the fall budget season.

We also want to improve our procurement and contracting regulations. Both AID and the GAO are looking at our domestic and host country contracting systems. With regard to host country contracting, I share with General Beckington a concern that it is not working as well as it should, but it is a valuable tool, particularly to help countries develop the capacity to run things themselves.

Therefore, I am directing that in the future, our mission directors must personally determine the capacity of the host countries to manage a contract and if there are shortcomings to provide for technical assistance to overcome those shortcomings. If they are not able to do so even with technical assistance, AID must use its own direct contracting authority. In addition, I have ordered this week that an AID mission observer be included on the host country's proposal evaluation panel to assure that the evaluation is done fairly. Third, I am requiring AID approval of all important interim steps in the host country contracting process.

Finally, I would like to touch briefly on operating expenses. Operating expenses only represent 8 to 9 percent of our program budget, but as I have noted we are trying to use it more efficiently. There is a temptation to cut personnel and operating expenses across the board without full attention to the implications.

As I said, I do not believe AID should strive for a zero errors policy. I believe we should be risk-takers. We should be innovators. We should be pathbreakers. But we also must be accountable. We must minimize our failures. To do this, we must continue to maintain a large overseas presence even if it is expensive. To do this, we must have an effective financial accountability and management system and the people to run it.

In closing, Mr. Chairman, let me note that we are faced with two distinct issues. One is the need to examine the broad parameters of our mission. Even as far back as the Kassebaum hearings, it was noted that too often one function after another has been added to AID's duties without regard to the whole.

PREPARED STATEMENT

The second issue, the one we are talking about today, is the day-to-day management of the agency. There are problems. We are working on them, and we value the subcommittee's assistance. I would call on all, however, to keep those problems in perspective. We should not lose sight of the valuable work done by the people in AID, and I would say that in your opening comments, Mr. Chairman, you did not lose sight of that work. I genuinely applaud your interest and help, and we also appreciate the help of the inspector general. As President Bush said last Friday in another context, we have more in common than in conflict. We all have the same objective: to make AID more effective.

Thank you, Mr. Chairman.

Senator LEAHY. Thank you.

[The statement follows:]

STATEMENT OF MARK L. EDELMAN

Good afternoon, Mr. Chairman, members of the Subcommittee. I am pleased to have this opportunity to discuss A.I.D. management issues with you.

Dr. Roskens and I place the highest priority on improving the efficiency and effectiveness of A.I.D. We appreciate the Subcommittee's interest in this subject, because we know that real improvements can't be made without a cooperative effort between the Executive and Legislative Branches.

As you know, Mr. Chairman, throughout A.I.D.'s history many have criticized its management practices. We are accused of wasting money on ill-conceived projects. We are accused of having a top-heavy Washington organization. And we are accused of following rigid bureaucratic procedures.

I would like to give my view of these criticisms. I would like to do so, not in the spirit of "answering back," but in the spirit of exploring the issues--so that we can use this discussion to move forward toward our common goal: more effective development programs on the ground.

Effectiveness

Let me start with the question of effectiveness. It's a common perception, Mr. Chairman, that foreign aid doesn't work, or works poorly. And, in fact, it is true that development is an extremely difficult business, where progress is more evolutionary than revolutionary. Unfortunately, we all can cite specific anecdotes or incidents of projects turned sour and well-meaning, but misguided, programs.

I do agree that we need to re-examine our overall foreign assistance program. But I don't agree that, taken as a whole, A.I.D. programs waste money or are ineffective. In fact, compared to the development programs of other countries and of the multilateral institutions, I would argue that A.I.D. gets more bang for the buck than anyone else.

There are several reasons for this. One is the fact that A.I.D. often plays the role of innovator and path-breaker. Our share of worldwide development assistance is 21 per cent, but I believe our share of development ideas has been much greater than that.

We are also assisted by a broad range of American organizations outside A.I.D.: the PVO's, the universities, the Peace Corps, and U.S. businesses. These groups make a powerful contribution to development.

But our single greatest strength is our network of overseas missions. No other donor has the strong overseas presence with decentralized authority that we do. This allows us to respond to local conditions, and to work closely with our counterparts in foreign governments and the private sector.

This close involvement helps with the design of development programs, but its real contribution is in implementation. For effective application, there is no substitute for continuous on-the-scene oversight and management.

We have had aid failures, and we have had to reverse course on some past directions. However, most of these failures have not been evidence of ineffectiveness, but of learning in a complicated business.

Dr. Roskens' predecessor, Alan Woods, compared A.I.D. to a venture capital firm. He said that A.I.D.'s job was to work at the frontier, to take risks, and to have the successes outweigh the failures. No failures would not mean that we were succeeding, but that we were acting too cautiously. We will continue to work to minimize our failures. But the costs of a "zero error rate" would be too high, in terms of both management expenses and lost development opportunities.

Let me give you an example. In the early 1970s a terrible drought hit the Sahel region in Africa, taking many lives. The world was appalled at the loss. With the consent and direction of Congress, A.I.D. undertook an intensive development effort in the Sahel. We knew this was a high-risk enterprise, because of the extremely difficult conditions there. And we did have project failures. But we also found a lot of things that worked. These lessons paid off in the 1980s. In 1984-85 drought occurred again in the Sahel. This time, even though the drought was worse than in the 1970s, fatalities were much lower--in part because of the new programs that were in place.

There are many other examples of successful A.I.D. programs. To cite just a few:

-- In Egypt, U.S. child survival programs saved the lives of some 500,000 children over the past eight years.

-- In Indonesia A.I.D. programs greatly increased immunizations of children against common childhood diseases. Today more than half of the country's children are covered.

-- In Jamaica A.I.D. provided textbooks to almost all primary school children and study guides to almost all teachers. This raised educational standards throughout the country, but especially in the remote, rural areas.

-- In Guatemala A.I.D. targetted underprivileged Indian children for special educational programs, spurring the government to put more of its own money into providing teachers for these children.

-- In Bangladesh an A.I.D. project revolutionized fertilizer distribution, allowing private wholesalers and retailers to compete with the government for the first time. As a consequence, more fertilizer was sold to farmers at a lower price in 1989 than ever before, contributing to record rice and wheat crops.

-- In Indonesia and Thailand U.S. family planning programs contributed to major declines in birth rates from 1965 to 1989: 35 per cent in Indonesia and 44 per cent in Thailand.

A.I.D. has also taken steps to improve its financial accountability and management, in many cases responding to Congressional and Inspector General concerns. For example:

-- A.I.D. established a financial management program in the Sahel, which has substantially increased the capability of the Sahelian countries to manage and account for U.S. assistance.

-- Based on an Inspector General audit and an internal assessment that our primary accounting system wasn't producing reliable accounting and management information, A.I.D. has decided to replace the system with a new, more effective one.

-- As required by the Office of Management and Budget and the Inspector General Act Amendment of 1988, A.I.D. is strengthening internal control and audit follow-up.

-- A.I.D. is issuing new guidance on financial accountability for local currencies generated under assistance programs.

-- A.I.D. has merged the operating expense and program budget functions, to allow closer integration of program activities with workforce requirements.

In terms of overall effectiveness, I believe that A.I.D. has one of the best records around. Sure, we need to do better. And we can do better. But we shouldn't start out with a misdirected sense that billions of taxpayers' dollars have been wasted, or that our development efforts haven't worked.

Washington Staff

What about the view that A.I.D. has a top-heavy Washington bureaucracy? Well, the first question is: Relative to whom? As I suggested earlier, most donors run their aid programs out of their capitals. The World Bank is the best example of this, but most bilateral donors do the same. Compared to them, we are certainly not too headquarters-oriented.

A major constraint to further increasing our field staff is that it's about twice as expensive to maintain people overseas as in the U.S. For example, in 1989 overseas allowances and housing added an average of $63,000 per person to the direct cost of a direct-hire American in the field (compared to an equivalent person at headquarters).* At a time of severe budget constraints, this makes it difficult to sustain our overseas presence.

Another problem is security. It is a sad fact of life that American government employees face security threats in many posts overseas. This has led the U.S. to adopt a broad policy of minimizing overseas presence, which affects A.I.D.

In spite of these problems, A.I.D.'s ratio of field staff to Washington staff is fairly high. For example, in FY 1989 the total A.I.D. workforce (excluding project contractors) was in excess of 11,000, of whom 78 per cent were in the

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* Overseas allowances include educational costs for dependents, danger pay, hardship differentials, medical and evacuation travel, and costs related to post assignments, home leave, and R&R.

field. (If project contractors were counted, the field ratio would be even higher.)

Nevertheless, Dr. Roskens and I feel that our Washington staff and its relationship to the field need review. The current Washington structure was basically put in place 30 years ago. Since that time the nature of the development challenges in the different regions of the Third World have changed substantially. In our opinion, a major evaluation of the system is long overdue.

To address that need, Dr. Roskens has initiated a major management review, focused on streamlining procedures in Washington. The review involves two steps. First, an internal team of A.I.D. officials will examine the issues in reducing redundancy between A.I.D.'s central bureaus (PPC, S&T, PRE, and FVA) and the regional geographic bureaus (AFR, ANE, and LAC). This will be followed by a comprehensive management review by an outside consulting firm. They will report to Dr. Roskens with specific recommendations for streamlining Washington operations. The whole process will be carried out on an expedited basis, and Dr. Roskens hopes to be in a position to implement needed changes by the beginning of the fall budget season.

A.I.D. is also looking at the issue of how to improve the proportion of A.I.D. staff in the field. Last fall we began a review of the relationship of programs to workforce and support costs. Now nearing completion, this review will help us do a better job of allocating staff and operating expenses. It will also help us determine whether substantial changes in staff allocations are called for. We will share the results of this review with the Subcommittee.

Bureaucratic Procedures

A more telling criticism is that our Washington procedures are too restrictive, and that we hamstring our field missions. There is some truth in this. We do look over the shoulders of our field missions more than our mission directors would like, or than may be appropriate sometimes. Second guessing is a popular sport in all institutions I'm aware of.

But to develop solutions to this problem, we have to understand the causes. One reason for extensive Washington oversight is that we have to assure consistency with the multiplicity of objectives that we have been directed to pursue by the Congress--child survival, population, environment, microenterprises, and so on. These guidelines are global. However, our programs are designed on a country basis. We have assistance going to more than 80 countries, many with very different development needs. The task of fitting these diverse programs into the global guidelines and budget levels approved by Congress is not easy. It takes substantial staff effort and oversight in Washington.

With regard to another cricicism of A.I.D.--that its procedures are rigid and bureaucratic--I think we have to give the critics their due. A.I.D.'s procedures are frustrating, not only to those we deal with, but to our own employees as well. A.I.D. requires more clearances and longer time to get something done than any agency I have worked with (with the

exception of some international organizations, which are truly mind-boggling).

Part of the problem is two sets of procurement regulations. For direct contracting, A.I.D. is required to follow the Federal Acquisition Regulation (FAR) system. These regulations were designed primarily for use in the United States. But A.I.D. operates in distant sovereign nations, where conditions are much more difficult and uncertain.

Host country contracting involves a separate system. This system is intended to take advantage of host country capabilities and procedures to the extent practicable. While this system serves a purpose, A.I.D.'s Inspector General and I share a concern that we need to find ways to make it work better.

We believe that there are opportunities to improve both these systems. At the request of Congress, GAO has undertaken a review of both systems. A.I.D. is actively supporting the two study teams. Internally, A.I.D. has begun a review of twenty-plus proposals for improving contracting and procurement procedures. Some of the changes under consideration would require Congressional action. We intend to combine the results of the GAO and A.I.D. reviews, and take appropriate actions based on the recommendations as soon as they are available.

Other parts of the bureaucratic problem are more our own doing. This is particularly true of our internal program reviews and project documentation. These procedures are time-consuming and generate a lot of paperwork. Some of this is necessary for quality control. But at times the system seems to have taken on a life of its own.

However, these internal procedures are not completely separate from the outside world. They are influenced by a defensive mentality that the Agency has developed as a result of a great deal of questioning and critical oversight from Congress and others.

A.I.D. employees may feel more vulnerable to criticism because the Agency lacks strong defenders. We have activist groups interested in particular areas: the environment, child survival, etc. But these groups don't take up the cause for the Agency as a whole. The result is a mentality which leads people to "cover all the bases" on documentation and review.

Finally, some procedural complexity comes from special actions, often in response to reported problems or abuses. Usually these are isolated instances. But the results are systemic. One abuse reported in the press can result in a procedure imposed across the board for all time. The result is an accretion of special controls that weigh down the system as a whole. As the old saying goes, "bad cases make bad law."

To address these problems, we are undertaking an internal review of programming and documentation procedures, as part of the broader management review mentioned earlier. At Dr. Roskens' direction, this review will look at the programming process from A to Z, from the creation of country strategies through the evaluation of project results. We are

going to look very hard for changes that we can make to streamline the system.

Operating Expenses

The last issue I would like to touch on is operating expenses. This is a controversial area, where we are under continual pressure to make reductions. Nobody likes to spend money on operating expenses. It sounds like overhead, and the whole idea with overhead is to minimize it.

We do control our operating expenses. Overall, our operating expenses represent only 8 to 9 per cent of our program budget (not counting large cash grants, which would make the ratio even lower). While overhead rates are not exactly analagous to this ratio, other agencies charge us an overhead rate of 25 per cent or more for work they do for us. Contractors charge much more. Thus it does not appear that our operating expenses are high in relative terms.

Moreover, A.I.D's operating expenses are not divorced from our operational effectiveness. They are part and parcel of the whole. I argued earlier that our overseas personnel are the key to our effectiveness. These people cost money. We can't run effective programs, respond to our many objectives, and ensure adequate accountability without enough people--and that means operating costs. The temptation to shortcut operating expenses increases vulnerability and is a recipe for trouble.

I want to be quite clear about this. General formulas for cutbacks in personnel and operating expenses without full attention to the implications are dangerous. We are on the edge of running serious risks in this area.

The operating expense account is not glamorous or politically snazzy. And it is especially vulnerable because it outlays much faster than DA or even ESF, a critical concern with the increasing focus on the bottom-line deficit figure. But operating expenses should be viewed in some aspects like insurance--the more you have the less your risks from the all-too-human foibles of fraud, abuse, and honest mistakes.

Guidelines

How should we deal with these challenges? I would like to suggest three guidelines for the future.

First, I would repeat the request of Secretary Baker and others for more flexibility in the foreign aid account. We are in the midst of a period of great change in the world, and we must have more flexibility if we are to respond to it.

Second, we would like to request a closer process of consultation with you on setting priorities in the development assistance account. As I've suggested, at present we have too many specialized objectives and too few common themes. To be effective, we have to set priorities. We simply can't continue to address so many different development problems, albeit worthwhile in isolation, and operate effectively given increasingly constrained budgets. We would like to work with you to do that.

Third, we would like to come back to you with specific proposals for management improvements. Dr. Roskens has only been at A.I.D. for two months. He has made it clear that he wants to achieve management efficiencies, and has set people to work on that. We believe that we will be in a position to come back to you with specific proposals in a matter of months. We are looking both at actions that A.I.D. might take to streamline operations and actions that Congress might take to allow us to do so.

In closing, Mr. Chairman, let me return to my original theme. In spite of common criticisms, it is not true that A.I.D. is poorly managed or ineffective. In fact, A.I.D. is highly effective and innovative, as is widely recognized in the countries we work in.

However, we do have management problems, and we appreciate the interest the Subcommittee has shown in helping us deal with them. We also appreciate the IG's efforts to help us improve our operations.

In all of this we intend to work very closely with the Subcommittee and the other committees of Congress. We all have the same objective: to make A.I.D. a more effective agent of development.

Thank you, Mr. Chairman.

STATEMENT OF HERBERT L. BECKINGTON

Senator LEAHY. General.

Mr. BECKINGTON. Mr. Chairman, I will submit my witness statement for the record if I may, sir, and simply summarize briefly the points that I tried to make here.

Fundamentally, Mr. Chairman, what I have tried to do here is point out that in my judgment, based upon my work over the past several years, I am of the firm opinion that there are a number of ways and methods and procedures under which this Agency operates that tend to diminish our effectiveness and increase our vulnerabilities, and tend to support or create a climate that can invite mismanagement. On page 2 of my statement I list four or five of those conditions, and I then proceed to discuss each one of them briefly.

I have identified the host country contracting process as one which opens us up to vulnerabilities and ineffectiveness in country after country over time. I am not an opponent of the host country contracting method, Mr. Chairman. I recognize that there are times when it is appropriate, and my criticism is in the way we have used it. I think we have used it too often, too indiscriminately, in that we have failed to, once we choose that method, maintain close enough oversight over it as the individual contract or enterprise has gone forward.

I mention also the ineffective use of cost sharing, or host country contributions. This is a common problem that we run into with great frequency. It is also a method used in our domestic grant programs in this country, and we have a very different way of handling it as between the way we do in our domestic programs and the way we do in the foreign aid context, and I think that that

needs to be looked at very carefully and possibly the Foreign Assistance Act requirements with respect to host country contributions and cost sharing should be reviewed.

I mention also this difficult area of local currency. The Agency's difficulty in using, applying, accounting for local currency. I mention the problems that we have with considerable frequency with respect to centrally managed programs, programs centrally managed out of Washington and carried out over one or more regions and countries of the world.

PREPARED STATEMENT

Finally, Mr. Chairman, I mention what I believe to be a problem, a proliferation of AID projects around the world. I note that, according to our records, as of March of this year there were 1,991 individual AID projects active somewhere in the world. That does not count the Public Law 480 responsibilities of my Agency, and I am concerned that the Agency is overstretched with this kind of a program, and I think that any look, any examination of the management and accountability over foreign aid should take into account the extensive spread of our foreign aid program in some 70 or 75 countries around the world.

With that, Mr. Chairman, I will stop and respond to your questions.

[The statement follows:]

STATEMENT OF HERBERT L. BECHINGTON

MR. CHAIRMAN, IN PRIOR YEARS I HAVE APPEARED BEFORE THIS SUBCOMMITTEE TO SUPPORT MY BUDGET REQUEST AND TO REPORT ON THE ACTIVITIES OF MY OFFICE IN THE WORK YEAR PRECEEDING MY TESTIMONY. IT IS UNFORTUNATE BUT TRUE THAT MY TESTIMONY IN THESE PAST APPEARANCES HAS HAD A COMMON THEME--ONE WHICH HAS IDENTIFIED ALL TOO FREQUENTLY AGENCY PROGRAMS, SYSTEMS AND PROJECTS CHARACTERIZED BY POOR PERFORMANCE, POOR ACCOUNTABILITY, DISAPPOINTING RESULTS.

I KNOW THAT THE WHOLE SUBJECT OF FOREIGN AID HAS HAD A GREAT DEAL OF ATTENTION BY THE CONGRESS AND OTHERS, AND THAT THIS HAS BEEN PARTICULARLY TRUE IN THE PAST TWO OR THREE YEARS. TODAY'S HEARING IS THE FIRST ONE I KNOW OF DEVOTED ENTIRELY TO ISSUES OF MANAGEMENT AND ACCOUNTABILITY IN THE NATION'S FOREIGN ECONOMIC AID PROGRAM. WITH A NEW ADMINISTRATOR IN COMMAND, I BELIEVE THIS HEARING IS TIMELY AND NECESSARY. MY OWN REPORTING AND THAT OF THE GENERAL ACCOUNTING OFFICE ON FOREIGN AID, EXTENDING BACK OVER A NUMBER OF YEARS CHRONICLE A TROUBLING RECORD OF MANAGEMENT AND ACCOUNTABILITY SHORTFALLS. IT IS TIME TO TAKE STOCK, TO ASK OURSELVES IF THIS IS THE BEST WE CAN DO IN WHAT IS UNQUESTIONABLY A TOUGH JOB IN A DIFFICULT ENVIRONMENT, OR, CAN WE INTELLIGENTLY FIND WAYS TO MINIMIZE THE MANAGEMENT AND ACCOUNTABILITY HAZARDS INHERENT IN A PROGRAM DELIVERING SOME TYPE OF FOREIGN ECONOMIC AID TO SOME 70 THIRD WORLD COUNTRIES.

I BELIEVE WE CAN DO BETTER.

I BELIEVE THE FIRST STEP TO IMPROVED PERFORMANCE MUST BE A HARD, OBJECTIVE, NO-HOLDS-BARRED LOOK AT SOME OF THE AGENCY'S CURRENT METHODS AND PRACTICES WHICH IN MY JUDGMENT OPERATE TO DIMINISH OUR EFFECTIVENESS, INCREASE OUR VULNERABILITIES AND TEND TO CREATE A CLIMATE THAT INVITES MISMANAGEMENT.

MY OWN REPORTING AND THAT OF THE GAO HAVE REPEATEDLY IDENTIFIED AND LINKED A HIGH MAJORITY OF MANAGEMENT AND ACCOUNTABILITY PROBLEMS IN THE DELIVERY OF FOREIGN AID TO A HANDFUL OF LONG USED BASIC AGENCY METHODS AND OPERATIONAL PROCEDURES AND CONDITIONS. THEY INCLUDE:

THE HOST COUNTRY CONTRACTING PROCESS;

THE INEFFECTIVE USE OF COST SHARING OR HOST COUNTRY CONTRIBUTIONS;

SERIOUS PROBLEMS IN THE ACCOUNTABILITY, CONTROL OVER AND USE OF LOCAL CURRENCY;

INEFFECTIVE MANAGEMENT AND CONTROL OVER CENTRALLY FUNDED PROGRAMS;

AGENCY RELIANCE UPON WEAK AND INEFFECTUAL THIRD WORLD FINANCIAL MANAGEMENT SYSTEMS; AND

A PROLIFERATION OF AID PROJECTS.

LET ME SPEAK CONCISELY TO EACH OF THESE.

HOST COUNTRY CONTRACTING

THE AGENCY MAKES HEAVY USE OF A DELIVERY METHOD CALLED HOST COUNTRY CONTRACTING IN WHICH A.I.D. FINANCES A CONTRACT--BID, NEGOTIATED AND AWARDED BY THE HOST COUNTRY. THIS METHOD SHOULD BE CHOSEN ONLY WHEN A.I.D. HAS DETERMINED THAT THE HOST COUNTRY HAS THE SKILLS AND EXPERTISE TO DEAL ADEQUATELY WITH ALL ASPECTS OF CONTRACT NEGOTIATION, CONTRACT ADMINISTRATION INCLUDING FINANCIAL MANAGEMENT, CONTRACT-ASSOCIATED PROCUREMENT AND MANAGEMENT OF CONTRACT-ASSOCIATED EQUIPMENT AND PROPERTIES. IN PRACTICE WE FIND THE HOST COUNTRY CONTRACTING METHOD IS TOO OFTEN CHOSEN WHEN THE HOST COUNTRY'S CAPABILITIES TO PERFORM ARE SERIOUSLY DEFICIENT AND ANY REASONABLE ASSESSMENT WOULD HAVE SO CONCLUDED AND SUGGESTED AN A.I.D. DIRECT CONTRACT APPROACH. THE VULNERABILITIES OF A.I.D. TO WASTE, FRAUD, ABUSE AND MISMANAGEMENT IN THESE CIRCUMSTANCES ARE QUICKLY APPARENT. TO COMPOUND THE RISK WE OFTEN FIND INADEQUATE A.I.D. OVERSIGHT OF THIS TYPE OF CONTRACT DURING THE LIFE OF THE CONTRACT AND WHEN THERE IS SUCH OVERSIGHT AN AWKWARDNESS IN INTERVENING IN A SITUATION IN WHICH A.I.D. IS NOT A PARTY TO THE CONTRACT. THE HOST COUNTRY CONTRACTING PROCESS IS A METHOD OF AID DELIVERY WHICH IS FREQUENTLY USED, IS INHERENTLY FRAUGHT WITH RISK IN THE LDC ENVIRONMENT, AND THUS CARRIES WITH IT A HEAVY A.I.D. MONITORING BURDEN WHICH A.I.D. FINDS DIFFICULT OR IS RELUCTANT TO PROVIDE. OUR AID PROGRAM PAYS THE PRICE IN MANY OF THESE CASES IN SERIOUSLY FLAWED PERFORMANCE AND DISAPPOINTING RESULTS. THESE INCLUDE SIGNIFICANT DELAYS IN PROJECT IMPLEMENTATION, MILLIONS OF DOLLARS IN UNUSED OR EXCESS PROJECT EQUIPMENT, FAILURE TO ACT ON POOR CONTRACTOR PERFORMANCE OR TO EVEN MONITOR CONTRACT PERFORMANCE AND THE DEBILITATING IMPACT OF POOR ACCOUNTING SYSTEMS AND INEFFECTIVE FINANCIAL MANAGEMENT.

THE HELWAN HOUSING PROJECT IN EGYPT WHICH YOU VISITED LAST YEAR, MR. CHAIRMAN, IS AN EXTREME EXAMPLE OF OUR INEFFECTIVE USE OF THE HOST COUNTRY CONTRACTING APPROACH. IN ANOTHER EXAMPLE, ONE OF THE LARGEST A.I.D. EDUCATION EFFORTS IN AFRICA, LOCATED IN CAMEROON

AND UTILIZING THE HOST COUNTRY CONTRACTING METHOD, ESSENTIALLY FAILED AND HAD TO BE TERMINATED. THE HOST COUNTRY'S INABILITY OR RELUCTANCE TO FULFILL CERTAIN PROJECT AGREEMENT CONDITIONS AND THE FAILURE OF THE A.I.D. MISSION AND THE MINISTRY OF EDUCATION TO RESOLVE STUBBORN DISAGREEMENTS STEMMED IN PART FROM THE STRUCTURE OF THE HOST COUNTRY CONTRACTING RELATIONSHIP.

HOST COUNTRY CONTRIBUTIONS/COST SHARING

ANOTHER AREA OF CONCERN IN THE PRESENT STRUCTURE OF OUR AID DELIVERY OCCURS IN COST SHARING OR HOST COUNTRY CONTRIBUTIONS. THE UNDERLYING ISSUE HERE IS SUSTAINABILITY AND HOST COUNTRY COMMITMENT. TO ENSURE THAT HOST GOVERNMENTS OR PVOS ARE COMMITTED TO THE NEED FOR A PARTICULAR PROJECT AND TO ENSURE THAT DEVELOPMENTAL EFFORT WILL CONTINUE AFTER A.I.D. FUNDING CEASES, WE REQUIRE THE HOST GOVERNMENT OR PVOS TO FORMALLY AGREE ON A SHARING OF THE COSTS OF THE DEVELOPMENTAL EFFORT. WE REPEATEDLY FIND THAT, EVEN THOUGH AGREEMENTS REQUIRE COST SHARING ARRANGEMENTS AND A.I.D. FAITHFULLY PROVIDES ITS AGREED-UPON SHARE, THE NON-A.I.D. SHARE NEVER MATERIALIZES. A.I.D. EITHER FOOTS THE BILL, REDUCES THE PROJECT GOALS, OR THE PROJECT DIES OR FADES AWAY WHEN A.I.D. FUNDING CEASES.

FOR EXAMPLE, IN ZAIRE A.I.D. SUPPORTED A REFUGEE ASSISTANCE PROJECT. THE GOVERNMENT OF ZAIRE WAS TO CONTRIBUTE $13 MILLION AND A.I.D $12 MILLION. WE FOUND THE GOVERNMENT OF ZAIRE WAS NOT PROVIDING ITS AGREED TO CONTRIBUTIONS. IN A RECENT AUDIT OF AN A.I.D. PROJECT IN THAILAND WE NOT ONLY FOUND THAI GOVERNMENT CONTRIBUTIONS LAGGING WELL BEHIND ITS AGREEMENT, BUT ADDITIONALLY THAT OUR MISSION THERE WAS UNAWARE OF THE SHORTFALL.

LOCAL CURRENCY

STILL ANOTHER AREA OF CONCERN IS THAT OF HOW A.I.D. DEALS WITH LOCAL CURRENCY AND TRYS TO APPLY IT TO DEVELOPMENTAL PURPOSES. IT IS AN ISSUE THAT IS PLAGUED WITH PROBLEMS, WIDELY DEBATED WITHIN A.I.D., AND THE SUBJECT OF CONSIDERABLE DISAGREEMENT. THE FUNDAMENTAL ISSUE HERE IS CONTROL AND ACCOUNTABILITY. ALMOST EVERY ASPECT OF OUR FOREIGN AID HAS A LOCAL CURRENCY COMPONENT.

FROM OUR ECONOMIC SUPPORT FUND CASH TRANSFERS TO COMMODITY SALES UNDER ECONOMIC SUPPORT FUND AND PL 480 AGRICULTURE PROGRAMS,

MILLIONS OF DOLLARS OF HOST GOVERNMENT CURRENCIES ARE RAISED AND PLACED ON DEPOSIT AND, IN MOST CASES, ARE TO BE USED FOR PURPOSES AGREED UPON BETWEEN THE U.S. GOVERNMENT AND THE HOST GOVERNMENT. A.I.D. SEES THESE LOCAL CURRENCIES AS A DEVELOPMENTAL TOOL AND SEEKS TO SUPPLEMENT ITS DEVELOPMENTAL EFFORTS WITH THESE RESOURCES. WE FIND PROBLEMS IN ALMOST EVERY ASPECT OF THIS PROCESS. HOST GOVERNMENTS FAIL TO MAKE DEPOSITS, IF DEPOSITS ARE MADE THEY ARE SOMETIMES YEARS LATE, DEPOSITS ARE NOT DETERMINED AT THE HIGHEST EXCHANGE RATE AVAILABLE, DEPOSITS ARE NOT USED FOR AGREED-UPON PURPOSES, DEPOSITS ARE USED TO SUPPLANT EXISTING HOST COUNTRY RESOURCES, ETC. ONE OF THE ROOT CAUSES IN THIS TROUBLESOME AREA IS THAT A.I.D. OPERATES WITH THE UNDERSTANDING THAT HOST GOVERNMENTS, NOT A.I.D., OWN THE LOCAL CURRENCIES ACCRUING FROM OUR AID PROGRAMS. WE MAINTAIN IT IS VERY DIFFICULT, IF NOT IMPOSSIBLE, TO CONTROL OR PROGRAM SOMETHING YOU DO NOT OWN. A.I.D. IS FREQUENTLY IN A POSITION WHERE WE HAVE LITTLE OR NO LEVERAGE TO PROGRAM THESE CURRENCIES FOR DEVELOPMENTAL PURPOSES, ACCOUNT FOR THE CURRENCIES OR IN ANY WAY CONTROL THE MANAGEMENT OF THIS RESOURCE. A.I.D. IS OFTEN BUYING LOCAL CURRENCIES WITH APPROPRIATED DOLLARS IN A COUNTRY UNDER ONE PROGRAM, WHEN EXCESS, UNUSED LOCAL CURRENCY SITS IDLE IN THE HOST GOVERNMENT'S CENTRAL BANK. FROM THE BEGINNING ACCRUAL TO THE END USE OF LOCAL CURRENCY WE CONTINUALLY FIND PROBLEMS IN WHAT WE BELIEVE IS A VALUABLE RESOURCE--IT IS REAL MONEY IN MOST OF THESE COUNTRIES. IT DERIVES IN THE FIRST INSTANCE FROM SOME ASPECT OF THE U.S. AID PROGRAM. IT IS NOT BEING EFFECTIVELY USED.

FOR EXAMPLE, A RECENT COMMODITY IMPORT PROGRAM AUDIT IN PAKISTAN FOUND THAT THE GOVERNMENT HAD FAILED TO DEPOSIT $60.3 MILLION INTO THE SPECIAL ACCCOUNT, USED $44.3 MILLION FOR UNALLOWABLE PURPOSES AND COULD NOT SUBSTANTIATE THAT $80 MILLION WAS ACTUALLY DEPOSITED INTO THE SPECIAL ACCOUNT. A RECENT AUDIT IN HONDURAS FOUND THE GOVERNMENT COULD NOT ENSURE THAT $129 MILLION IN LOCAL CURRENCY WAS PROGRAMMED AND USED FOR AGREED UPON PURPOSES.

CENTRALLY FUNDED PROGRAMS

YET ANOTHER AGENCY PROCESS THAT AS PRESENTLY EMPLOYED TENDS TOO OFTEN TO ERODE THE EFFECTIVENESS AND EFFICIENCY OF OUR AID DELIVERY IS FOUND IN OUR CENTRALLY FUNDED PROGRAMS. WE DELIVER MILLIONS OF DOLLARS OF COMMODITIES, RESEARCH AND TECHNICAL SERVICES AROUND THE WORLD OUT OF THE A.I.D. OPERATING BUREAUS RIGHT HERE IN WASHINGTON, D.C. THE GLOBAL NATURE OF THESE PROGRAMS AND THE REMOTE AREAS OF THE WORLD IN WHICH WE DELIVER

THEM MAKE CLOSE OVERSIGHT NEARLY IMPOSSIBLE. CONSEQUENTLY, RECENT AUDITS BY MY OFFICE AND THE GENERAL ACCOUNTING OFFICE HAVE IDENTIFIED SERIOUS PROBLEMS IN THIS MODE OF DELIVERY. FOR EXAMPLE, A.I.D., BETWEEN 1982 AND 1988, PROCURED $244 MILLION WORTH OF CONTRACEPTIVES. OUR AUDIT OF THE PROCUREMENT AND DISTRIBUTION OF THESE CONTRACEPTIVES FOUND THE PROGRAM TO BE SERIOUSLY FLAWED. THE GAO FOUND SIMILAR PROBLEMS IN THE CENTRALLY MANAGED MALARIA RESEARCH PROGRAM, WHERE THE AGENCY IN RECENT YEARS HAS BEEN EXPENDING ALMOST $10 MILLION ANNUALLY.

WEAK FINANCIAL MANAGEMENT IN LESSER DEVELOPED COUNTRIES

THE LACK OF GOOD FINANCIAL MANAGEMENT PRACTICES AND SYSTEMS IN THE DEVELOPING COUNTRIES HAS AN ADVERSE IMPACT ON OUR FOREIGN AID PROGRAMS. IT PLAYS A NEGATIVE ROLE IN EACH OF THE PROBLEM AREAS I HAVE BEEN DISCUSSING. WE CONSISTENTLY FIND THAT HOST GOVERNMENTS AND MANY PVOS INVOLVED IN OUR PROGRAMS HAVE EXTREMELY LIMITED FINANCIAL MANAGEMENT ABILITIES AND ARE THUS PRONE TO EXPERIENCE FINANCIAL MANAGEMENT PROBLEMS THAT CAN ADVERSELY AFFECT OUR AID DELIVERY AND ACCOUNTABILITY. A.I.D.'S OWN FOCUS AS WELL AS THAT OF THE LDC'S TENDS TO BE ON OTHER MATTERS--BUILDING ROADS, IMPROVING HEALTH AND AGRICULTURE, DELIVERY OF COMMODITIES. ESTABLISHING AND MAINTAINING GOOD ACCOUNTABILITY SYSTEMS IS USUALLY A SECONDARY PRIORITY. ONLY RECENTLY HAS THE AGENCY'S LATIN AMERICA BUREAU INITIATED A PROJECT DESIGNED TO STRENGTHEN FINANCIAL MANAGEMENT AND ACCOUNTABILITY IN ITS REGION.

PROBLEMS IN ACCOUNTABILITY ARE CONSISTENTLY REFLECTED IN OUR NON-FEDERAL AUDITS OF OUR FOREIGN AID EXPENDITURES. THESE AUDITS, A RESPONSIBILITY OF THE INSPECTOR GENERAL BY LAW, EMPLOY CERTIFIED PUBLIC ACCOUNTING FIRMS AROUND THE WORLD TO MAKE FINANCIAL AUDITS OF INDIVIDUAL CONTRACT AND GRANT AGREEMENTS. WE ARE CURRENTLY OVERSEEING FOR QUALITY AND CONTENT ABOUT 100 OF THESE A YEAR, AND ONLY ABOUT ONE OUT OF FOUR ARE EXPRESSING FAVORABLE OPINIONS ON THE FINANCIAL OPERATIONS OF THE AUDITEE. THESE DISTURBING RESULTS CONTRAST POORLY WITH THOSE OF MY DOMESTIC IG COUNTERPARTS WHO RARELY RECEIVE ADVERSE OPINIONS BY CPA FIRMS DOING AUDITS OF DOMESTIC GRANTEES AND CONTRACTORS. THE ADVERSE IMPLICATIONS OF THIS STATISTIC FOR THE ACCOUNTABILITY AND FINANCIAL INTEGRITY OF A.I.D.'S OPERATIONS ARE SELF-EVIDENT. EVEN WITHIN A.I.D. FINANCIAL MANAGEMENT PROBLEMS ARE ROUTINELY REPORTED BY MY AUDITORS. WE FIND EXCESSIVE CASH ADVANCES, UNALLOWABLE COSTS,

LACK OF ENFORCEMENT OF COST SHARING AS I NOTED EARLIER, IMPROPER OR QUESTIONABLE OBLIGATIONS AND INACCURATE RECORDS AND REPORTING.

A PROLIFERATION OF A. I. D. PROJECTS

I BELIEVE MY AGENCY IS A VERY HEAVILY BURDENED ORGANIZATION, SO MUCH SO THAT MANAGEMENT AT ALL LEVELS BOTH IN WASHINGTON AND IN THE FIELD REPEATEDLY SHOWS SIGNS OF BEING STRETCHED TO THE LIMIT AND BEYOND IN THE DAY-TO-DAY OVERSIGHT OF PROGRAM IMPLEMENTATION. CONSIDER THE LARGE NUMBER OF ACTIVE A.I.D. PROJECTS IN MORE THAN 70 COUNTRIES AROUND THE WORLD. AS OF MARCH 1990, THERE WERE 1,991 ACTIVE, FUNDED, ONGOING A.I.D. PROJECTS IN PROCESS. THIS WORKS OUT TO ROUGHLY ONE PROJECT FOR EACH PROFESSIONAL EMPLOYEE, FOREIGN SERVICE OR CIVIL SERVICE, ON THE AGENCY'S ROLLS. IT IS A FIGURE WHICH HAS REMAINED REMARKABLY STABLE FOR SEVERAL YEARS NOW. A SINGLE AGENCY OFFICER IN AN OVERSEAS MISSION CAN BE RESPONSIBLE FOR LITERALLY MILLIONS OF DOLLARS WORTH OF ACTIVE A.I.D. PROJECTS. IT IS TRUE THAT THEY ARE ASSISTED BY SUBSTANTIAL NUMBERS OF PERSONAL SERVICE CONTRACTORS, CONSULTANTS, ETC., BUT I WOULD SUGGEST, MR. CHAIRMAN, THAT THIS FACT IN ITSELF ADDS TO THE A.I.D. OFFICER'S RESPONSIBILITIES. AFTER ALL, THE CONGRESS AND THE AMERICAN PEOPLE HOLD MY AGENCY ACCOUNTABLE FOR THE QUALITY AND COMPETENCE, FOR THE RESULTS OR LACK THEREOF IN THE CONDUCT OF THE NATION'S FOREIGN AID PROGRAM. THAT KIND OF GOVERNMENTAL RESPONSIBILITY CANNOT BE CONTRACTED TO ANY PRIVATE CITIZEN.

I REPEATEDLY SEE EVIDENCE OF THE LACK OF ADEQUATE MONITORING AND OVERSIGHT OF OUR AID EFFORTS. IT IS NOT UNCOMMON AT A PROJECT LOCATION FOR MY AUDITORS TO BE THE FIRST AGENCY PERSONNEL TO HAVE VISITED THE PROJECT IN WEEKS OR EVEN MONTHS. NOT TOO LONG AGO ONE OF MY SENIOR ASSOCIATES VISITED A RURAL ELECTRIFICATION PROJECT JUST SOUTH OF LA PAZ, BOLIVIA. HE AND HIS COLEAGUES WERE THE FIRST A.I.D. OFFICERS THE VILLAGERS COULD REMEMBER EVER SEEING. UNTIL HE EXPLAINED OTHERWISE THE VILLAGERS BELIEVED THE PROJECT, WHICH WAS CHANGING THEIR LIVES, WAS A GIFT FROM THE PEOPLE OF ARGENTINA.

I BELIEVE THE EVIDENCE I HAVE OF SUCH A LIMITED CAPABILITY TO OVERSEE THE IMPLEMENTATION OF OUR AID EFFORTS IS THE EXACT OPPOSITE OF WHAT SHOULD EXIST. THE LDC ENVIRONMENT BY DEFINITION CALLS FOR MORE THAN NORMAL ON-SITE MONITORING, NOT LESS.

I RECOGNIZE FULLY, MR. CHAIRMAN, THAT THE MAKEUP, SCOPE, GOALS AND OBJECTIVES OF THE FOREIGN AID PROGRAM ARE NOT THE PROVINCE OF THE INSPECTOR GENERAL OF THE AGENCY. BUT I THINK IT IMPORTANT TO NOTE FOR YOU MY CONVICTION THAT THE AGENCY'S MANAGEMENT CAPABILITY IS PRESENTLY POORLY MATCHED TO THE PROGRAM RESPONSIBILITIES IT HAS EITHER ASSUMED OR BEEN GIVEN. ANY CAREFUL, STRUCTURED ASSESSMENT OF MANAGEMENT AND ACCOUNTABILITY PROBLEMS IN OUR FOREIGN AID PROGRAM MUST, I BELIEVE, TAKE CAREFUL ACCOUNT OF THIS CONDITION.

FINALLY, MR. CHAIRMAN, I WOULD COMMENT ON THE PERSISTENCE, AND NAGGING DURABILITY OF THE PROBLEMS WHICH SAP THE VITALITY AND EFFECTIVENESS OF OUR FOREIGN AID PROGRAMS. IF YOU WERE TO SET ASIDE A DAY AND DEVOTE IT TO REVIEWING MY LAST FOUR OR FIVE SEMIANNUAL REPORTS TO THE CONGRESS AND GAO REPORTS OVER THE SAME PERIOD THAT FOCUS IN ANY WAY UPON ISSUES OF ACCOUNTABILITY AND PERFORMANCE I THINK YOU WOULD BE STRUCK BY THE FREQUENCY WITH WHICH THE SAME PROBLEMS EMERGE FROM THIS REPORTING. MANY FACTORS BEAR ON THIS, SOME NOT OF THE AGENCY'S MAKING SUCH AS THE POLITICAL AND ECONOMIC PROGRAM ENVIRONMENTS AND LIMITS ON THE AGENCY'S RESOURCES. BUT THERE ARE ISSUES THAT CAN BE MORE VIGOROUSLY ADDRESSED THAN I BELIEVE THEY ARE NOW OR HAVE BEEN IN THE PAST, AND I HAVE ATTEMPTED TO IDENTIFY SOME OF THEM FOR YOU TODAY. THANK YOU, MR. CHAIRMAN.

AID MANAGEMENT PROBLEMS

Senator LEAHY. General Beckington, in your testimony you mentioned the trip to the Helwan housing project. I agree with you, Helwan is an extreme example. I still shudder every time I think of the millions and millions of dollars that went into that. When I was there the only thing there was to show for it was a nicely put-together presentation room for the people involved in the project to show what they might have some day.

Mr. Edelman, I have read stacks of the GAO and inspector general reports. There are some 750 findings of management weaknesses in audits over the past 5 years. The statement that you have given on behalf of AID rejects the perception that AID is a poorly managed agency. Let me ask the question two ways: First, do you and Dr. Roskens agree that there are serious systemic management and accountability problems at AID? Second, if you do not agree that there are fundamental management problems, how do you explain the many GAO and inspector general reports which are remarkably consistent in their criticism?

Mr. EDELMAN. I do believe there are some systemic problems with the Agency. I do not know whether Dr. Roskens does or not, so let me just talk for myself.

I think, in fact, that I do not have any major disagreement with some of the comments that the inspector general just made either. Given the resources we have to work with, and the environment we are trying to work under, I do not think the scale of those prob-

lems are the catastrophe that some—and I do not mean anyone here—have painted.

Let me go on a bit. We are being asked to operate overseas pretty much according to U.S. accounting standards. And I do not believe anyone here wants to give us the kind of resources that would be needed for us to be able to come out with a zero audit or a clean Price Waterhouse bill.

COUNTRY PROGRAM ACCOUNTABILITY—HELWAN HOUSING PROJECT

Senator LEAHY. If I could just interrupt there for a moment. Using that same logic, I understand not doing some of the type of auditing you might be able to do with small projects right here in the United States where everybody is watching. But, again, we could use the Helwan housing project as an example. After I saw that, I said how in heaven's name could anything get this screwed up? And I asked them to go back and find out who is ultimately responsible.

Now, that does not require Price Waterhouse. I mean, that just requires management to say, OK, you are responsible. If it screws up, you are the one. I never saw anything where people covered their backsides as well in my life and I spent 8 years as a prosecutor before I got here.

Mr. EDELMAN. I agree with you completely.

One of my frustrations has been exactly in trying to find out who is responsible. And on the host country contracting, that is why I decided last week, after listening to some options, that, to begin with, the mission director is going to have to sign his name on a determination that says, this government—the government that he wants to sign a contract with—does have the systems in place to do this project.

Senator LEAHY. That should save us a lot of money. I have a feeling that if the mission directors take that seriously, it will save us a lot of money because there are a number of governments that do not have those systems in place.

Mr. EDELMAN. I ran through this one, and I know this committee is concerned about it. When I tried to find out who was responsible for the screw up, I ran across just what you did, Senator, which is, I could not find who was responsible. And I think that that is a fair criticism on your part. Both Dr. Roskens and I will try to establish procedures to pinpoint the responsibility for success or failure as best as we can. It is very difficult to do it now.

It is also very difficult because of the movement in the Foreign Service. The officer who designs the program usually is not there any more by the time the implementation begins, certainly not by the time the project is completed. He may be two or three countries away or may have retired. And that is just the nature of the system that we have to work with.

MANAGEMENT CAREER PATH IN AID

Senator LEAHY. Well, is not that also a part of your overall basic structural problem? I have heard that there is a lot of this institutional culture at AID where management certainly is not an area you want to get into. It is not a career path. It is at best a neces-

sary evil. But at worst it is an intrusion into the real work of the agency, which is to design and implement foreign aid programs. You are kind of a lesser foreign affairs specialist if you are involved in management.

It is kind of like in the State Department, if you are involved in security or something like that, you are totally shunned. So it is far better for somebody's career to design the projects than to run them. Is that correct?

Mr. EDELMAN. Yes; I have made the same observation.

Senator LEAHY. General Beckington, you called some of these same problems systemic. And I am sorry, Mr. Edelman, I did not mean to cut you off.

Mr. EDELMAN. We can go on forever on this topic. We can come back to it as you like, Mr. Chairman.

Senator LEAHY. Well, we will go back and forth. General Beckington, is there an institutional bias against management in the Agency?

Mr. BECKINGTON. My observation, Mr. Chairman, is that management, generally speaking, does not get the same level of attention in my Agency as policymaking and programming. I am something of a peripheral observer, of course, of this sort of thing. But I have the impression that the senior people of my Agency find their days, perhaps necessarily, very much taken up with policy issues and with programmatic issues.

And that what I would tend to think of as straight management issues—running a taut ship, for example—tend to be relegated to the mid-level and lower-level officers of my Agency.

Senator LEAHY. Well, if that happens, and if there is waste and fraud as a result, nobody benefits, do they? I mean, if a program is designed and then the money is wasted through poor management, then the program does not get completed or does not proceed correctly. We have had some projects that we actually stopped because of waste. Who benefits by that? Are there any benefits by not having adequate management? I certainly do not see any. And, from what you have said earlier, I suspect you do not either.

EXTERNAL INVOLVEMENT IN AID PROGRAMS

The reason I raise some of these things, Mr. Edelman, is that as I read your prepared statement and listen to your oral statement, which I think in some ways is defensive and anticipated some of the things in General Beckington's statement, I believe I perceive an underlying message.

The message seems to be: Unanimous reports to the contrary notwithstanding, AID is really a pretty well-managed organization with some secondary problems which you can deal with if left alone. In some ways foreign abuse is an inevitable part of the cost of doing business in a difficult environment. There is not much we can do about it if we intend to give foreign aid to countries with weak government structures. Congress shares heavily in the blame for the problems that do exist because of interference in AID's affairs. What AID needs is more flexibility and less congressional meddling. Foreign affairs activist groups share the blame for pressuring AID on specific issues like population, environment, child

survival, women's development issues, and so forth, instead of working with the Agency to implement basic economic development goals. We should not in any way meddle in those things held sacred—staff levels, AID's overseas missions, and the operating budget.

Is that the underlying gist of your statement?

Mr. EDELMAN. That is not my bottom line, the way you drew it.

Senator LEAHY. That is the way I read it.

Mr. EDELMAN. Those are——

Senator LEAHY. It is the way I read it.

Mr. EDELMAN. Individually, I have identified those as problems. I think that does not mean that all those things can or should or ever will go away. They will not. I am living in the real world, and I am living in a democracy. And, indeed, if we do not have outside people kicking us, such as yourselves and such as the inspector general and the GAO, things will absolutely get worse without getting better.

I am a great believer in oversight and in checks and balances. So I am not saying, go away and leave us alone. That is why I added the comment about the inspector general's testimony—that we have more in common than in conflict about what we want.

I think it is a very helpful role that he plays. It helps to keep us honest. We are not the fountain of all knowledge of what works and does not work, even on management. We are making changes.

I will be honest with you—the main reason the changes are being made right now on the host country contracting is because of this hearing. If this hearing were held a few weeks from now, we would have hemmed and hawed, should we do this, or should we do that. But like everybody else, you need some action forcing events and some things that crystalize your mind.

As the General rightly pointed out, people are busy with policy matters or other kinds of things and need things to draw their attention back on management. Now, in my case, that is primarily what I want to deal with in the Agency—the management side. But still, this hearing, an audit, comments from Members of Congress or whatever help to pull all that back in.

So I am by no means saying, go away and do not bother us. That litany of things you mentioned are simply all the tradeoffs that we are always balancing—things that cause us problems. They are not going to go away. They should not go away. They cannot go away.

Senator LEAHY. Well, I will want to get back to that. But I have gone into Senator Mikulski's time, and she has to leave for another hearing, so let me yield to her.

PROPOSED MANAGEMENT CHANGES IN AID

Senator MIKULSKI. Thank you very much, Senator Leahy.

Mr. Edelman, you and I do not know each other very well, but certainly the other Senators know that Inspector General Beckington and I have had several conversations over the last couple of years. And this takes me, then, to the thrust of my questioning both to the inspector general and to you.

First, I respect and appreciate your candor in some of the things that you have just said. No. 1, you are only making changes when

Congress looks over your shoulder. No. 2, creating programs is more interesting than managing programs. We would all like to be creative. I thought that would happen when I got to be a Senator, but I spend more time doing oversight.

And when we talk about, gee, is it not great when Congress looks over our shoulder so we shape up, I would like to respond to your comment that there have been no hearings on this since the Kassebaum hearings in 1986—a very special colleague, Senator Kassebaum. I can tell you that since I have been a U.S. Senator, I have gone over the inspector general reports, raised them with him, and then with the head of each agency that has been your predecessor.

I have here a letter from the AID inspector general to Mr. Dante Fascell dated 1988. Listen to the issues:

> Ownership of local currency, diffusion of AID programs, centrally funded programs, the lack of capacity-building in host countries, no financial management institutional building by AID, failure to enforce financial management requirements.

This is 2 blessed years ago. Now, having said that to you, these issues are not new. Congress has looked over AID's shoulders, and if it takes that to jump-start you into making changes, I do not see where these changes have occurred. Could you tell me what specific structural and managerial changes you and Dr. Roskens intend to make to deal with these problems that have been sitting here now for 3 years of these inspector general reports? Not good intentions, not us jump-starting you.

Mr. EDELMAN. If I can back up—I hope I did not leave the implication that the only way we make changes is when Congress looks over our shoulder. We make changes when Congress is not looking over our shoulder. The comment I was making on the host country contracting is, that is what forced the action to do it now, instead of hemming and hawing about it for awhile.

And by all means, we get letters all the time on management concerns from many people. I was talking about a hearing that has focused on this. Not that Members of Congress have not shown concern in these problems. But we have made changes, Senator.

What you do not hear about, for example, on local currency, are the times that there are not problems in local currency.

Senator MIKULSKI. Mr. Edelman, I do not want to be brusque, and I certainly do not want to interrupt you, but I asked you specifically what structural and managerial assignments——

Mr. EDELMAN. Yes; excuse me, I am sorry. I was just going to go on to that.

We are about ready to send out this month, regardless of whether or not this hearing had come about, guidance, which we will be glad to send to you, on local cost accounting—on tracking local currency.

We are now examining 20 some-odd procedural changes in our contracting procedures. Three of these which are mentioned in my written testimony, we have already decided to do, and affect contracting and host country contracting.

VOUCHER TRACKING SYSTEM

Two years ago, in 1988, we had over 750 outstanding travel vouchers. The new controller at that time took action to change

the procedures, so that we are down to under 100. This was before I came around, so I cannot even claim any credit for these changes.

Now we virtually never get calls or letters from Congressmen complaining about late payment of vouchers, which were very commonplace before. This is because we have instituted—again, this happened before me—a new voucher tracking system, so that we do not lose these things all the time, which also means people out there are getting paid on time.

PAYROLL ACCOUNTING SYSTEM

Almost one-third of the direct-hire staff, myself included, had payroll problems 2 years ago, and those have all but been eliminated, because of changes that we have made in that system. We still have an accounting system, however, that for years and years has been criticized by the GAO, I believe, and certainly by the inspector general, as being inadequate.

Last September, not because Congress or anyone else was looking over my shoulder, I made the decision that we are going to junk that thing, stop trying to paste it together by gum and baling wire, and devise a new accounting system which meets our basic requirements without bells and whistles on it. That effort is now underway, I believe even to the satisfaction of the inspector general.

AID RESPONSE TO INSPECTOR GENERAL ISSUES

Senator MIKULSKI. Mr. Edelman, there is a pattern to the issues raised by Mr. Beckington. These issues have been raised consistently for at least a 3-year period. And rather than taking the time of the committee to go into each and every one, I would request as a committee member, if the chairman and the members of the committee agree, that you look at the basic issues that have been raised by the inspector general for the last 3 years, the ones that are repeated time and time and time again. And then, give to the committee your plans for addressing them.

Mr. EDELMAN. I would be glad to do that.

Senator MIKULSKI. And I think in that way we can look at those plans and then do oversight on the sustainability of those good intentions.

Mr. EDELMAN. I would be delighted, because I think what we are planning and where we are going is in the right direction. I would be glad to do that, Senator Mikulski.

INSPECTOR GENERAL STAFFING

Senator MIKULSKI. General Beckington, as you know, we have appreciated very much the inspector general's reports. My question, as we move into this appropriations cycle, do you have adequate staff that you need? And are you able to be able to retain the kind of staff you need to do your job?

Mr. BECKINGTON. On the first part of your question, Senator, I think, yes. Generally speaking, my staff presently is adequate. I may want to revise that a bit over the next year or so if the agency acquires substantial additional responsibilities in Eastern Europe.

That is one area that I do not feel at all particularly at ease or comfortable with at the moment or even very knowledgeable.

As to the second part of your question, I think that the caliber and quality of the people I have is excellent and, as a matter of fact, it has been improving in my judgment over the past 3 or 4 years.

Senator MIKULSKI. Do you have enough funds? Or are you saying with the addition of the Eastern European portfolio to AID, that you are going to need more resources?

Mr. BECKINGTON. I may, Senator. I would like to reserve judgment on that. But the one area in which I think we are short of funding, a bit shy of funding, is in—and it is as much an agency responsibility as it is an inspector general responsibility—is funding for non-Federal audits and DCAA audits that are done by DCAA for the Federal Government as a whole. We have to pay for those services. And that figure is going up somewhat. And that is the only specific, immediate area at the moment that I think of, that I might come to the Congress requesting additional funding for. And that would be measured in less than $1 million, I think.

Senator MIKULSKI. Well, thank you.

LOCAL CURRENCY OWNERSHIP

General Beckington, one of the issues you continually have raised over the last several years is ownership of local currency. Could you tell us what is the status of the question of ownership of local currency? Can this be improved by management? Or will it also require additional legislative solutions?

Mr. BECKINGTON. One of the solutions would require legislation. The agency now believes and holds to the position that this local currency is host country owned. And I think legally that is correct, under the loan structure and grant structure and cash transfer structure which underpins and underlies the accrual of most, if not all, of this local currency.

I do not pretend to know the answer to the local currency problems, Senator. I know that there is probably more than one option available to us. What I have been concerned about is management lethargy in addressing this problem. It has gone on for years. The problems have been reported repeatedly, not only by me, but by the GAO.

And what I have said internally in the agency is that we ought to do something about it. Do not just let it drag on. If whatever we do, the something that we do, turns out not to be the right answer, let us go back and readdress it. But let us not let it continue to go on in the future as we have in the past, is the point that I have tried to make.

If the ownership aspect is to be changed, then I think, in specific response to your question, there would probably have to be a legislative change.

Senator MIKULSKI. Thank you.

HOST COUNTRY PROJECT CONTRIBUTIONS

Mr. Chairman, I have many other questions, but I would just like to ask one final one. And this goes to requiring host governments

to contribute to all projects. The Foreign Assistance Act requires that the host government or an NGO contribute a portion of cost to any given project. As I understand it, this does not always happen. And therefore, the worth of the project is questionable when, no matter how small the requirement, there is not an investment. If they do not make an investment of themselves into a project, the question becomes, why should the American taxpayer do it?

Could you tell us what has been your observation analysis in this area? And do you agree that there should be some type of contribution to show investment, a belief in the merits of the idea?

Mr. BECKINGTON. I agree very much, because the underlying issue here is commitment and sustainability, as I understand it. I think the current legislation recognizes that and makes provision for it. I think, recognizing the difficulty that some of these countries have in meeting that requirement, it is still a sound requirement to have imbedded in our foreign assistance process or procedure.

And I would strongly urge that it be continued in force. The percentages may or may not be about right now, but I think that we have got to be more careful and more thoughtful in advance of how we are going to require those contributions to be made.

On the domestic side, as the Senator knows I am sure, the Federal Government makes its portion available, period, no more. And we require, usually, quarterly reports from the States and localities, that they have, in fact, paid their agreed-to share, whatever that may be under whatever program we are talking about, highway or sewer programs, school programs, and so on.

Something like that might be a model for the foreign assistance program, that it would at least give us an opportunity to keep a handle on it, and know what is happening with respect to the host country contribution aspect of a given project. As it is now, we repeatedly find or frequently find that it is not made, and sometimes the AID mission in country is not even aware of the shortfall.

Senator MIKULSKI. Thank you, General Beckington. I always look forward to working with you and your excellent analysis and your ideas. We are going to make sure you have the money you need.

And, Mr. Edelman, given your candor here, I do believe you are going to try to get a handle on it. I look forward to working with you.

Thank you, Mr. Chairman.

Senator LEAHY. Thank you, Senator Mikulski.

As I mentioned earlier, some of the questions I have raised involve issues I have heard Senator Kasten raise in his capacity as both chairman and ranking member of this committee over the years. I share his level of frustration, and I yield to him.

STATEMENT OF SENATOR ROBERT W. KASTEN

Senator KASTEN. Mr. Chairman, thank you.

First of all, let me join you in welcoming our witnesses. I would also like to compliment you for holding this hearing on management problems in the administration of our foreign assistance programs.

As you suggested, General Beckington's statement is like others that we have seen in the past. He again lists problems that we have seen for a number of years, like host country contracting, control of local currencies, the continuing proliferation of AID projects. And clearly, these issues must be addressed, and I know that Mark Edelman wants to work with us in addressing them. Hopefully we are going to see some of these issues addressed by the new team at AID.

BUY AMERICAN PROVISION

I want to talk specifically about an issue which the chairman and I addressed in a letter to Secretary Baker last week, that we are seeing increasing evidence that the so-called Buy American provisions of the Foreign Assistance Act are being used less and less, and some would argue, are becoming meaningless.

As we mentioned in our letter to Secretary Baker, and I would ask unanimous consent that that letter be made a part of the record, the often repeated statement of AID officials that roughly 70 percent of AID appropriated dollars are returned to the United States in the procurement of U.S. goods and services is now being shown by AID's own studies to be inaccurate.

[The information follows:]

LETTER FROM SENATORS PATRICK J. LEAHY AND ROBERT W. KASTEN, JR.

MAY 29, 1990.

Hon. JAMES A. BAKER III,
Secretary of State, Department of State,
Washington, DC.

DEAR MR. SECRETARY: It has become increasingly evident that the so-called "Buy American" provisions of the Foreign Assistance Act and related legislation have become meaningless as administered by the Agency for International Development.

The often repeated boast of AID officials that: "70 percent of AID appropriated dollars are returned to the United States through procurement of U.S. goods and services" has been shown by AID's own studies to be grossly inaccurate. In fact, close to the opposite is true. Based on studies performed by the Agency in Thailand, Jordan and the Philippines, the real figure is under 30 percent.

Last March, Senator Kasten wrote to the AID Administrator about this and later received some interim responses which caused us even greater concern. The study in Thailand shows that only about 25 percent of United States foreign aid dollars were United States source, and preliminary figures from Jordan and the Philippines indicate 44 percent and 42 percent respectively. However, a quick review of those latter figures indicates that substantial parts of the Philippine aid program were excluded from the analysis, and that the Jordanian CIP program, which is listed as 100 percent United States source, is overstated. Therefore, it would appear that United States source procurement for the Philippines is closer to 10 percent and Jordan closer to 30 percent.

It appears to us that "Buy American" is now the exception. Waivers which were to be allowed for exceptional cases are now routinely granted. Even when there is a choice it seems that AID officials often choose foreign source. A good case illustrating this latter point was a matter brought to Senator Kasten's attention by the Chrysler Corporation in which USAID granted 6 Toyotas to the Bolivian Government as part of a health program. No opportunity was offered for American companies to bid, notwithstanding the fact that Chrysler had established a Jeep franchise in Bolivia, and the distributor there is required to have after-sales service facilities and maintains a full supply of parts. The ceremony delivering these 6 Toyotas was well covered in the press, with photos of the Toyotas and the American Ambassador.

Upon receiving this complaint from the Chrysler Corporation, Senator Kasten contacted AID and was informed that "AID policy, as set forth in its handbooks, is that when the grantee is an international organization such as PAHO (these Toy-

otas were passed through PAHO), and AID is not the sole contributor to the funded project, AID may rely on procurement policies and procedures of that international organization. Therefore, the procurement of the vehicles by PAHO was accomplished under their policies and procedures." In other words, U.S. officials decided that they would rather use policies allowing U.S. taxpayer dollars to purchase Toyotas than to purchase American-made vehicles. We consider the response that Senator Kasten received from AID as nothing less than an insult.

Absent from these studies by AID are accurate delineations of third-country source procurements. For example, are procurements in the Philippines from locally managed Japanese outlets counted as local procurement when they should properly be counted as third-country procurement? We also have many questions about some of the individual listings in the reports such as PVO co-financing which is shown as 90 percent United States source origin.

Whatever it is that allows the system to come up with such results must be changed, as soon as possible. "Buy American" cannot be the exception with respect to the expenditure of U.S. foreign aid dollars. We would ask your immediate attention on this matter, which we intend to pursue with legislation if necessary.

Sincerely,

PATRICK J. LEAHY,
ROBERT W. KASTEN, JR.,
U.S. Senators.

BUY AMERICAN CALCULATIONS

Senator KASTEN. It appears that the real figure may be something less than 30 percent.

The first thing we have to do, it seems to me, is get accurate data. We have draft reports which I understand you both have reviewed with regard to the Philippines and Jordan. We found those draft reports to be really useless in determining the percentages of third country, of local, and of U.S. procurement. They do not explain the data, they are not verifiable, and the numbers used in the reports and those used in the congressional presentation vary.

In the case of the Philippines, particularly, the report neglects a number of major expenditures in its overall analysis. And if I could, Mark, let me begin by saying that the Asia/Near East Bureau has provided us with draft reports purporting to show procurement percentages in the Philippines and in Jordan by United States procurement, local procurement, and third country procurement.

The numbers assigned to the three categories are, we believe, inaccurate and raise a number of questions about the calculation and the methodology which is being used. I would be interested in knowing your view of these studies and whether you will attempt to do a better job at gathering this data.

It seems to me that we are not talking only about these two countries. We might be talking about these two countries just be two examples we happen to have before us. But what is your view of these studies and of this problem?

Mr. EDELMAN. Let me talk a bit if I may, Senator, about Buy American. The 70-percent number that you used in your letter and that AID officials used last year is quite simply wrong. It is not right to use it anymore. It was right a long time ago. It has continued to be used without getting any good, hard data. It is way off the beam. So I agree with you, it is just simply wrong.

Nobody paid that much attention and focused on it. And nobody really tried to focus on it until you struck an interest in it, because again, it is sort of the squeaky wheel, and there are lots of other

things to do, so people did not pay attention to it. We now have begun to take a closer look at this question, including the Administrator, only last Friday.

Senator KASTEN. As you know, I have spoken to him a couple of times on the phone in the last 2 weeks about this. I have a follow-up question with regard to a specific purchase in Bolivia. But, anyway, go ahead.

Mr. EDELMAN. The 70-percent number was probably closer to being correct in the mid-1970's, when what AID was doing at that time, the kinds of projects that it was doing, were mostly loan projects, and especially capital-intensive projects. As a result of the so-called basic human needs legislation, or new directions, call it what you will, in 1973, AID, by congressional direction, started to move away from capital projects and do more technical assistance types of programs, which is much of what we do now.

Today, capital projects are the rare exception. With possibly the exception of Pakistan and Egypt, we rarely do any kind of major capital projects. That means then that we are doing technical assistance. And, at the same time that we have moved away from capital projects, we have moved more and more to either cash grants, like in Israel, which is the extreme example, or sector assistance, or call it nonproject assistance, where we are not buying a commodity.

In the technical assistance projects or in an agricultural research project, which we did not have nearly to the same degree 15 years ago, we are buying locally. If you go out and you are building, let us say a health hut for an example, in any country, you are paying for gasoline, you need pick axes and shovels. Those things are bought locally and are not imported because it is cheaper and faster, and, therefore, a component of the project is now going for what we call the local cost component, but it is not going overseas or back to the United States.

So both of these things have caused great shifts in our program because of the nature of what we are doing. The only way we will get back up, my guess is, to a 70-percent component, is if we radically revise both the legislation and the sharing between the executive branch and the Congress of the kinds of things that we should be doing.

Otherwise, I think that the lower levels, some countries it could be anywhere from 20, 30, 40 percent, is more likely.

So that explains the historic shift and why the 70-percent number is no longer accurate.

At the same time, earlier studies, I believe, reflected a percentage of procurement, not a percentage of the total program. If you look at Buy America in terms of the percentage of the actual procurement, those studies took out assistance going for cash payments or balance of payment support. Therefore—I believe there was at least something like $70 million to $80 million or $100 million, in the case of the Philippines, which came out of the base right away, which then dropped down the total. So the percentage went up.

Maybe it was not clear enough that what the report was trying to get at was the percentage that went to the United States of all procurement, not of the total program. The percentage of Ameri-

can procurement will almost always be higher if you talk of total procurement of goods and services than it will be of the total program, simply because in the larger country programs, a lot of what we are doing is cash transfers. Egypt, as you know, just off the bat, has $115 million a year that, the last few years, we have been giving them as a cash transfer. Or there might be some sector assistance of a similar proportion and amount. And that has been going on in the Philippines program.

So the number may have looked too high or too low, but the percentage depends on which base you are talking about. And we have to be sure we are talking about percentage of procurement, which I think is a legitimate way to look at the issue. But that did not relate to the old 70-percent number. The old 70-percent number of 15 years ago was indeed of the total AID program. And as I have said, we have moved away to programs where we do not buy anything from anybody anymore.

Senator KASTEN. Well, first of all, you have a bunch of charts and papers and I have some of them, too. This is part of a draft study in which you are showing percentages at 18 and 42. And any references to the 70-percent figure are incorrect.

Mr. EDELMAN. Absolutely.

DIRECTION OF AID WITH REGARD TO BUY AMERICA

Senator KASTEN. So let us stop talking about 70 percent.

Now it is also clear to us that whatever the number is, it is less important than what the procedure, attitude, and desires of the agency are. So, in one country we are giving direct cash assistance. In another country we give a kind of program assistance in which Buy America would not be applicable.

And in a third country, we might be giving kinds of program assistance in which Buy America would be very applicable. I will talk in a moment about Bolivia.

We must, as a subcommittee, look at this issue more carefully. We are concerned about what the attitude, leadership, and direction of the agency is with regard to Buy America.

When you have an opportunity to buy Jeeps or Toyotas, because you want to buy America, you buy Jeeps. And when you have an opportunity to fly on XYZ Airline or on Pan Am, you fly on Pan Am. Because this is what you are supposed to do.

Senators Bentsen and Boren have now introduced legislation which will force you to go through a whole new process. I do not know whether that legislation is going to pass, or if Chairman Leahy and I will support it. But if this turns out to be a big problem and the American people discover that you are shopping for Toyotas and not for Jeeps, and you are doing it consistently, it is going to be difficult.

Foreign aid is not the most popular program as all of us in this room are aware. There is a responsibility that the Agency for International Development has with regard to favoring American products when there is the opportunity.

You understand what I am trying to say?

Mr. EDELMAN. Not only do I understand it, I agree with it. And I can assure you that Dr. Roskens agrees with it, because I heard

him make almost that exact speech on Friday to the senior staff at the Agency. He has tasked people to develop a draft, no more than a two-page policy statement from him, that will go out to the agency which will set this out very clearly. We will be more than delighted to share this with everybody who wants it.

PURCHASE OF TOYOTAS IN BOLIVIA

Senator KASTEN. I thank you for that response.

Just to complete the record here, I know you are aware of the matter about which I wrote to AID concerning the procurement of Toyota vehicles by AID in Bolivia. This happened despite the fact that the Chrysler Corp. has a Jeep franchise right there. And also it happened despite the fact that we have the so-called Buy American provisions in our foreign assistance legislation.

The presentation of the Toyotas to the Bolivian Government was featured in the press with photos of our Ambassador at the presentation. So, rightfully, we have received some complaints, which are very justified, from American manufacturers.

Now AID wrote back, and this I am sure did not go across your desk, at least I hope it did not.

Mr. EDELMAN. I am glad to say it did not.

Senator KASTEN. AID wrote to us saying since the policy allowed this procurement, AID proceeded in this fashion rather than purchase the American vehicles. That was not a sufficient response for us, for Chrysler, or for other manufacturers.

Are you saying to us today that we can expect a modification of this procedure?

Mr. EDELMAN. I will make two comments. The direct answer to your question is yes. And two, as far as the Bolivia Toyotas, let me just say, that was stupid. And everybody responsible for it was stupid for doing it, including getting on the front page of the newspapers that way. I thought it was insensitive and dumb.

Senator KASTEN. I thank you, and we are going to work with you on this. This is not something that we disagree on. I think it is something that may have fallen through the cracks.

Mr. EDELMAN. I agree with that.

Senator KASTEN. We will be happy to work with you and with our staffs to be sure that we have got this whole process tightened up.

Thank you, Mr. Chairman. I have a couple of other questions which I will submit for the record.

MISMANAGEMENT COSTS

Senator LEAHY. General Beckington, could you give us an estimate of the cost to the foreign aid program of these mismanagement problems at AID. I mean dollar costs as well as ineffectiveness and inefficiency.

Mr. BECKINGTON. I do not think I have any estimate of the dollar costs, Mr. Chairman. I have never made any attempt to arrive at such a figure. I do think, over time, that they are fairly substantial in terms of what we commonly think of as waste and inefficiency. I do not know that I can go much beyond that.

Going back to specific agency projects or programs just quickly in my mind, I can think of probably several where I think we have found that there has been waste in the neighborhood of several hundred thousand, or perhaps several million dollars, as a result of implementation problems encountered during the life or lives of the projects.

AID FINANCIAL MANAGEMENT ISSUES

Senator LEAHY. Mr. Edelman, OMB placed AID's financial management as one of the highest risk areas facing your agency.

Why did they do it? Was it because of the embezzlement operation going on inside AID? I understand there was an embezzlement of $1.2 million at AID.

Mr. EDELMAN. Well, let me address the embezzlement, but I personally am not aware of that OMB comment. If you would like, I know there is someone sitting behind me who could answer you more fully, Mr. Chairman.

The embezzlement did occur. It was eventually caught. And we have changed the system so that that cannot occur again. It was something like a GS–12 voucher clerk who had been doing this over a long period of time. And interestingly enough, it was caught in the security update, seeing that the guy was living higher off the hog than somebody who was a GS–12 should be.

But we changed the system, once we got on to it.

Senator LEAHY. But they got a lot of money before they were caught?

Mr. EDELMAN. He sure did.

Senator LEAHY. I mean the person could have been living high off the hog like that because they were selling cocaine in the streets or running a numbers racket or anything else. But the fact is the money came out of AID.

Mr. EDELMAN. Oh, absolutely.

Senator LEAHY. This should have been caught in an auditing system.

Mr. EDELMAN. Sure. And we did not have the right system to do that. That is correct. We have changed the system since that, at least, so we do not think it can happen again. But your point is right.

As to why OMB said that, if you would like further comment from my colleague.

Senator LEAHY. Please. Come up and give your name and title for the record.

Mr. USNICK. My name is Michael Usnick. I am the Comptroller of AID. OMB issued that statement partially in response to information we provided last summer to Director Darman of OMB, who had asked us to outline the highest risk areas in AID. One of those that we highlighted was financial management.

A part of the financial management weakness was, in fact, that this embezzlement occurred. It occurred over a 6-year period of time. And as Mr. Edelman indicated, it was not caught by our own internal audit findings. It was caught by a security background investigation, which led the investigators to look into his banking

records, et cetera, which revealed he was, in fact, engaged in this activity.

Part of the problem was the fact that internally, inside financial management, this gentleman had access to the two sides of the financing equation, accounts payable and accounts receivable. We corrected that immediately after his arrest. We took away the access code of anyone in the accounting system that could access both accounts receivable and accounts payable. We have initiated new procedures for anyone who issues 1166 payment schedules to Treasury. They now have to go through a central neutral point. We took all the internal control actions inside of AID to correct that particular weakness.

We still have financial weaknesses. And General Beckington has pointed that out. We have a plan in place to correct those weaknesses, and we have made quite a bit of progress in the last 2 years.

INSPECTOR GENERAL AUDITS OF AID

Senator LEAHY. I go over General Beckington's reports each year, we hear of the same kinds of problems every year. We get some new examples of waste and fraud in each report, but the same kind of problems. That doesn't sound like progress to me.

General Beckington, does anybody at AID read your reports? We read them here, but does anybody there read them and take them seriously? Are you sending them to the dead letter office?

Mr. BECKINGTON. I have to believe so for my own good mental health, Mr. Chairman. [Laughter.]

And I really do not know how carefully they are read at the very senior levels of the Agency. It goes back to my point that the senior people in the Agency I think are greatly—their time is greatly taken up by policy issues and programmatic issues, and so on, to the extent that management issues sometimes get short shrift, or get less time than they should.

One of the key concerns, I think, Mr. Chairman, for me, and I would respectfully suggest, for this committee, is the remarkable hardiness of these problems. They go on year after year after year. They fall into the same general categories. And they have not really changed.

And that is my concern and I think obviously from the trend of some of the committee's questions this afternoon, it is beginning to be of concern to this committee.

Senator LEAHY. Oh, it is very much a concern. I remember one time a good friend of mine in the prosecutor's business was talking to me about how difficult it was in a particular investigation we were conducting to get to the person responsible. He said, it is like shoveling smoke. I heard that expression almost 25 years ago and it has stuck in my mind ever since. As I look into some of these problem areas, the Helwan project, for example, where we ask who is responsible, and I wonder if we are not shoveling smoke.

NATIONAL AGRICULTURAL RESEARCH PROJECT IN EGYPT [NARP]

There is another scandal brewing in the National Agricultural Research Project in Egypt. I have gone through the inspector gen-

eral audit of this project that is dated December 27, 1989. The subcommittee staff discussed this project in detail with AID and the inspector general's staff over in Cairo.

For the record, the project began in 1985. Initially, it was going to cost $210 million over 5 years, with $130 million from AID and $80 million from the Egyptian Government. In 1988, the total project was increased to $375 million, and extended 4 more years, with AID's share raised to $300 million, some $90 million more than what the whole cost was supposed to be with both Egyptian and United States money.

The inspector general's audit last December says that:

> Although the national agricultural research project has been operational since 1985, the Government of Egypt has provided no evidence acceptable to the inspector general showing that it has actually contributed to this project, as called for in mission policy and as required by the grant agreement.

In the meantime, of course, AID had already put $100 million into the project.

Then the audit concludes:

> We also wish to register our serious concern at the large amount of AID funds, some $275 million, scheduled to be spent in the less than 5 years remaining under this project, and the risk which outlays of this magnitude over such a relatively short period of time pose for prudent management of appropriated funds in this project's control environment.

General, you were being as polite there as when you mentioned twice here today that senior management at AID have their time greatly consumed with major policy issues, often to the exclusion of management matters. This audit says to me that the NARP, or national agricultural research project, is a sinkhole for AID's funds.

I have also heard, from other sources, of abuses in connection with this project. There have been some allegations that virtually nothing in the way of constructive results have materialized. Is this another project like the Helwan housing project?

General Beckington, what is your assessment of the NARP project? Is it sound? Or should we cut our losses now, say we really screwed up, and get out?

Mr. BECKINGTON. I do not think we should do the latter at this point, Mr. Chairman. But I do think that that program needs close management attention. And that is what I said to the Assistant Administrator for that regional bureau at the time that report came out, back around Christmas.

The AID program in Egypt is one of the most difficult ones, obviously, to manage, that we have. And we have a terrible record, in my judgment, Mr. Chairman, of major AID projects in that country that have been poorly managed, poorly managed by the AID mission in country, and not properly overseen by the bureau here in Washington. I think this one is a candidate for real problems in the next 4 or 5 years unless somebody takes hold of it and runs it right.

I do not say this to be mindlessly critical of the AID people involved. I think that dealing with the Egyptian Government, the AID program—the AID relationship between the two governments is a very difficult one to manage. It is very hard for everyone concerned.

Senator LEAHY. Well, what about allegations of abuses by Egyptian personnel under this contract? Have there been abuses?

Mr. BECKINGTON. I think there have, Mr. Chairman, yes, sir. I have had great difficulty dealing with those because I think it has been very hard for me—as a matter of fact it has been impossible for me to bring myself to do it, to point the finger at the Egyptians, because Agency personnel were fully involved in at least some of the concerns that I have.

In other aspects, I think it was more on the Egyptian side. But I have not reported this actually within the agency as yet, Mr. Chairman. So I am probably catching the Deputy Administrator by surprise.

Senator LEAHY. Generally, I assume at some point you will be reporting it?

Mr. BECKINGTON. Yes, sir.

Senator LEAHY. I would like very much to have a copy of that report.

Mr. Edelman, what about NARP? Are you going to continue it, despite the Egyptian noncompliance with its cost-sharing commitment?

Mr. EDELMAN. I cannot tell you that, Senator. And I cannot tell you because I do not know about the project. One of the things I intend to do, as I am sitting here and thinking, so somebody behind me can take a note, is to contact the Administrator, who arrives in Cairo on Thursday for a few days. I am going to be sure that he is aware of what you have just been saying and what is going on out there, so he can take a firsthand look at the project. That is the best I can promise you for right now. We can get a cable to him out there tomorrow and he will have it by the time he arrives. But what we are going to do there, I do not know.

CANCELING PROBLEM PROJECTS

Let me, though, as best I can, just give you my philosophy. The inspector general kind of gave me an opening on this one in his prepared testimony. He talks about a host country contract in Cameroon for educational construction. I was the Ambassador in Cameroon at the time. My mission director came to me and suggested, after 3 years of dillydallying by the Government of Cameroon, that we cancel the project. And we did. And I supported him 100 percent.

And I went to three different ministers, who all called me on the carpet including the equivalent of the chief of staff to the president. I also went to the president of the republic himself and told him of our cancellation. And he was generally supportive of it; the rest of his people were not supportive of what we did and why we did it.

But I do believe that if they are not performing, you cut your losses and you cancel the project. My job and AID's job is not to develop any particular country. I am glad to help. It is a pleasure to help. It is fascinating to help. But it is their job. And if they are not going to do it, my view generally is I can take the taxpayers' money and go someplace else with it. Nobody is doing me a favor.

So, except for having to admit that you made a mistake, and except for having to write off some sunk costs if you cannot salvage some of it, it does not bother me psychologically to say we made a mistake and we should stop this turkey.

Now I do not know whether that is the case for this particular project, but I know also from talking a bit with Dr. Roskens that is his general philosophy and the way he approaches problems, too. It does not tend to be a philosophy, though, either in the AID culture, or even more importantly, in the State culture, because then it gets all caught up in what is it going to do to our bilateral relations and how is it going to affect this, that or the other thing. And it gets very difficult to do for those reasons; not necessarily just for saying we made a mistake.

RESPONSIBILITY FOR MANAGEMENT PROBLEMS

And we go back to the problem we talked about at the very beginning of who is responsible and who is in charge. Well, who is in charge is easy, but not who is responsible for the screw-up. But it is a problem that I want to get a handle on, as does Dr. Roskens, and to get people in closer accountability. Given all of our other constraints, we are not going to get where I want to be—turnover is just one of the reasons—but we will. The General is right.

I have said this to him in other meetings—I simply do not understand why some of these problems, big or little, especially the major ones, keep coming up year after year after year after year after year after year. I do not understand it. And that is coming to you from the Deputy Administrator of the Agency, I do not understand it. One year from now I just hope I am not sitting back here telling you the same thing, because we are going to put new systems in place. We may not have solved all our problems by then, but we will be on our way to solutions.

Senator LEAHY. If 1 year from now I am hearing about the same problem, and if I am chairman of this committee, there is no way on God's green Earth I am going to do anything, I repeat, anything, to move this bill out of committee.

And let me tell you something, I take an old-fashioned view about responsibilities within the Senate as the subcommittee chairman. I go back to the old traditionalist view that we have a responsibility to the full committee, in this case the Appropriations Committee, and to the full Senate, to provide the Senate with as much understanding as possible on an issue, and the most solid recommendation possible before we actually have to vote on something.

I feel awfully frustrated making any recommendation on AID right at the moment. And I am certainly not going to be making a recommendation for more money into Egypt that might bring us another Helwan project there. I hope we can bring that project to a conclusion. Please make sure Dr. Roskens has some idea of what to be looking for when he looks at that $375 million project while he is there.

But I say that because, contrary to some of the testimony earlier, I do not think everybody at AID greets the inspector general with open arms when he comes. It is probably not as much a matter of rejoicing the day he arrives as it perhaps is the day he leaves. I got

the impression that, nice as it was to see somebody from back home, that even my staff and I would not be welcome with great joy at the Helwan project.

SENATOR LEAHY REQUESTS AID AND INSPECTOR GENERAL REPORTS ON NARP

So, to focus this discussion, I request that each one of you provide the subcommittee with a full report on NARP within 1 month. I would hope those reports would address project management, Egyptian performance, including cost sharing, project results, whatever they might be, to date, further AID obligations under the project, and recommendations about continuation of the project.

Let us use the NARP issue as one specific example of a problem that can be solved.

CLOSING

It is embarrassing to go on the floor of the Senate and have everybody who is opposed to foreign aid, for whatever reason, bring up all of these causes of fraud and waste, and then say, Now why are you supporting this bill? I support some very, very good men and women in the field, who are true professionals and work very hard. I support many of the foreign policy objectives of President Bush and his administration. I certainly support the ability of the United States to have worldwide influence in a changing world.

But, I tell you right now, I do not support waste and I do not support fraud. And I do not support a foreign aid program that is so endemic with fraud and waste and corruption that it makes the United States a laughing stock. And I know you do not, Mr. Edelman, and I am not suggesting otherwise, and I know the General does not. But, after all, we have a responsibility. We hold positions of great influence in foreign policy, all three of us do.

We are, first and foremost, U.S. citizens, and each one of us has a sworn responsibility to our Government and the laws of this country. And, I tell you, it is hard to see how that is carried out if this goes on.

Now, let us work together to find a better way to posit responsibility. And if there are screw-ups, do just what we do in my office. If there is an inexcusable screw-up, that person gets fired. They do not get just promoted on to another project, they get fired.

Mr. EDELMAN. Can I make a comment?

Senator LEAHY. Of course. After that, you are entitled to.

Mr. EDELMAN. One, again, I do not disagree with what you said. But coming back to some of my earlier concerns or comments, when you go on the floor I would be glad to give you a list of a lot of the kids who are alive today because of what we have done or the agriculture that works better, or the fivefold increase in cassava production in Guinea that did not exist without AID, or the 25,000, or whatever it is, folks in Malawi who are alive today with clean water because of it.

Senator LEAHY. Believe me, I shout about those successes over and over and over again. I do not talk about the tens of millions of dollars worth of condoms that sit in a warehouse until they rot as part of our population control program. I do not talk about areas

where equipment is ordered and paid for but never arrives. I do not talk about any of those things. I do talk about the success stories.

But you know what I think about? I think about the fact that we could have one hell of a lot of more success stories if we were not wasting so damned much money on things that do not work. And I think of a lot of kids that might be saved from river blindness and saved from disease, and others who might be taught how to read and write, and agriculture that might allow people to increase their nutrition level if we had the money for it.

And I see program after program after program that I am told we have no money for, and how much of a crying need there is, and no money for it, and yet we are oftentimes talking about a relatively small amount of money, certainly less than appears to have been wasted in just this one project alone. That is why I get frustrated, probably because I have seen how successful AID can be in some specific areas.

And I think how successful it could be in those same areas around the world where our aid is desperately needed, and as a great and powerful and good Nation, we ought to be giving it. But the money is not there because it has been wasted, or it is in some foreign official's pocket, or it is just gone.

And that is why I find it so frustrating.

Now I know those success stories. Believe me, I talk about them a lot on the floor. If we did not have some successes, we would not even get any bill through.

ADDITIONAL COMMITTEE QUESTIONS

Thank you, gentlemen. I appreciate your being here. I hope it has been an instructive and enjoyable afternoon for you. We will have some additional questions which we will submit for your response.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

SUB-SAHARAN AFRICA

SENATOR LEAHY: I am told that operating expenses and personnel expenses for A.I.D. missions are currently being cut proportionally throughout the world in order to meet other budgetary needs. Given the fact that sub-Saharan Africa has special needs as the poorest region in the world, and that the Development Fund for Africa presents A.I.D. with unique responsibilities, what is the rationale for cutting these funds and personnel proportionally? How much is being cut from Africa and from what accounts, and where will these funds be used?

AMB. EDELMAN: A.I.D.'s FY 1991 request for operating expense funds is not sufficient to finance our current staffing levels. In order to cover mandatory costs, such as salaries and benefits, rents and utilities, and post assignments, we will have to reduce our U.S. direct-hire staff by about 125 from the FY 1989 level.

A.I.D. has been given new responsibilities in Eastern Europe and Central America, which must be managed within the reduced staffing levels. While some funds were provided in the Supplemental Appropriation to support these new activities, the overall costs will exceed the funding provided, putting additional pressure on our FY 1991 operating expense funds.

To accommodate the operating expense restraints and new responsibilities, A.I.D. is examining all existing allocations of workforce resources. Reallocations will be made based on review and analysis by the operating units in A.I.D., not by proportional cuts to the individual units.

As final allocations for FY 1991 will be dependent on the funding made available in the FY 1991 appropriations, we are unable to tell you what impact these reallocations will have on any given organization unit.

PROLIFERATION OF A.I.D. PROJECTS

SENATOR LEAHY: Amb. Edelman, General Beckington says he repeatedly sees evidence of inadequate monitoring of how aid is used. He also says his office and the GAO have written report after report about this, but nothing changes. The same problems continue year after year. How do you respond to that?

AMB. EDELMAN: General Beckington is correct in his assertions that A.I.D.'s monitoring systems do not catch all of the problems that exist. He is also right in pointing out that the less developed country environment is a difficult one in which to operate.

Our monitoring systems are concerned with both the effectiveness of our assistance--are children getting immunized, for example--as well as efficiency--are we spending the least possible amount of money to get the job done. The surest system for meeting these goals would be for us to do everything. Of course, we do not have the staff to do everything ourselves, nor should we ever aim for that. Development means more than immunizing today's children at the least cost possible; it also means helping developing countries set up or improve the institutions needed so that tomorrow's children can be immunized as well on a cost-effective basis.

In each project, there are literally scores of people who have some measure of control over how A.I.D.-financed resources are procured and used, ranging from our own direct-hire American staff and our contracted technical assistance teams to personnel from cooperating institutions and right through to ultimate beneficiaries. Any one of these people can be dishonest. Our monitoring and control systems are designed, quite frankly, to prevent abuses in the first place and, in the second, to detect and correct abuses where they do occur. I am sure that General Beckington would agree with me that no system can ever foresee and counteract all of the possible ways that a determined, clever crook can devise to divert resources. We can try to make it difficult for him and we can try to catch him if he tries.

Having said that, however, I recognize that our monitoring systems, as extensive as they are, have not been as effective as they should be. We are concerned about management excellence and conscious of our duty to the American taxpayer to get the maximum development impact from each dollar entrusted to us. Recent steps to improve our record include hiring more financial management people, increasing courses on project management and procurement for our personnel, vigorously implementing the recommendations from our annual internal vulnerability assessments, and increasing our scrutiny of the financial management and control procedures of cooperating institutions. These steps will take some time to achieve their ultimate impact. They may prove inadequate. If they do, let me state that A.I.D. will take those additional steps that may be necessary to permanently improve its monitoring and control systems.

SENATOR LEAHY: Can your staff adequately monitor millions of dollars in projects?

AMB. EDELMAN: One should bear in mind that A.I.D. has one of the greatest management and control challenges of any U.S. agency. Given the worldwide reach of our programs, the difficult environments in which we administer them, and the range of counterpart institutions and intermediaries with which we must work, one would expect some problems to occur. Even with these difficulties, however, I believe we are doing a good job of monitoring the billions of dollars in Agency programs.

Having said that, though, I am concerned with General Beckington's finding of inadequate monitoring of A.I.D. projects and I will look into this problem to see what improvements can be made.

SENATOR LEAHY: What about General Beckington's statement that "it is not uncommon for my auditors to be the first Agency personnel to have visited a project in weeks or months", and that in some cases the local people do not even know the project is funded by the United States.

AMB. EDELMAN: I agree that we need to increase the amount of staff time available for project management and site visits and we are taking steps to do that in a couple of ways. First, by reducing the number of active projects we manage, more time will be available for oversight of the remaining projects. To accomplish this, we are using deobligation-reobligation authority to close out non-performing projects, and we are limiting the number of new projects we start up by concentrating our assistance in fewer projects. This fiscal year, for example, we expect about a 10 percent decrease in new projects compared to last year. I should

add that if we receive the added flexibility we requested in our FY 1991 request, our ability to limit the number of projects would be enhanced. Second, we are looking at ways to increase the number of staff in the field. We have already undertaken a look at the way we allocate staff in relation to our program resources and I expect the results of that review to be a greater emphasis on field staff. I should point out here too that it is important that we receive the Operating Expense level we requested if we are to be able to hire the staff necessary to do the job.

As to the second question, while there are undoubtedly instances where the local people do not know that a particular project is funded by the United States, as a rule, I believe awareness of American assistance is quite high. The Agency places a high priority on advertising U.S. presence and on involving the local inhabitants in our development efforts. We also have extensive guidelines in place on how and where the A.I.D. logo is to appear on all material purchased and delivered to projects sites.

WEAK FINANCIAL MANAGEMENT IN LESSER DEVELOPED COUNTRIES

SENATOR LEAHY: Amb. Edelman, General Beckington describes pervasive problems with accountability of funds due to the extremely limited financial management abilities of host country governments and private voluntary organizations.

He says three out of four audits reveal financial management problems.

You say "A.I.D. gets more bang for the buck than anyone else." General Beckington says these results are far worse than audits of domestic grantees and contractors. He also says "even within A.I.D. financial management problems are routinely reported."

He mentions "excessive cash advances, unallowable costs, lack of enforcement or cost sharing, improper or questionable obligations and inaccurate records and reporting."

Which is it? Is General Beckington making a mountain out of a molehill? How do we get at this problem, and at the same time give you "more flexibility" as you request?

AMB. EDELMAN: Clearly, A.I.D. does work with host governments and private voluntary organizations which have limited financial management abilities. However, A.I.D. is continually striving to improve its oversight of funds and its internal controls. With regard to grants to host government agencies and private voluntary organizations, A.I.D. has increased its use of non-federal auditors to audit A.I.D. programs. The number of non-federal audits performed in 1989 was almost twice the amount performed in 1988. In many cases, formal evaluations are conducted to assess the financial management systems of these organizations before they even receive funds.

In the Sahel region of Africa and in Latin America, A.I.D. has in place two projects specifically designed to improve the financial management capability of cooperating governments. In the Sahel, the requirement in Section 121(d) of the Foreign Assistance Act that A.I.D. certify the system of accounts of any foreign government which is to receive A.I.D. funds has led to the development of the Sahel Regional Financial Management Improvement Project. In Latin America, the Regional Financial Management Project for the Latin American and Caribbean Region assists governments which seek to improve their financial management capabilities.

With regard to A.I.D.'s internal financial management, most of

the internal control weaknesses that were identified through the OMB-mandated process of examining internal control have been corrected, including the obligation review process. A series of actions have been taken to address the problem of excessive cash advances. The problems you mentioned with regard to unallowable costs, inaccurate records, etc. were surfaced in Inspector General audits and subsequently resolved, allowing these recommendations to be closed. Finally, A.I.D. has determined that its primary accounting system, FACS, suffers from major deficiencies, and the design work is about to begin for an entirely new system.

In order to continue making progress toward enhanced management accountability within A.I.D., the Agency needs to receive the authority to hire adequate staff at appropriate grade levels. This will require an increase in our operating expense levels.

FINANCIAL AND ACCOUNTING SYSTEM (FACS)

SENATOR LEAHY: A.I.D. has 29 separate accounting or tracking systems. There is no centralized financial accounting system in your Agency, which says volumes about the level of management control. Ten years ago, in an effort to integrate all these separate systems, A.I.D. started an overall system called FACS. It was to be up and running by 1983 at a cost of about $5.5 million.

In 1989, the FACS had integrated only one of the 29 subsystems at a cost of $20 million. The A.I.D. IG strongly recommended that the FACS, which clearly was not going to provide accurate data to permit adequate financial management, to be terminated.

Has FACS been terminated?

AMB. EDELMAN: Further development of FACS has been terminated. However, the Agency is currently using the FACS system at certain levels.

All fund accounting and automated control from the point of receipt of apportionments from OMB through the issuance of budget allowances to the operating A.I.D. organizations is processed and controlled through FACS. In Washington, all obligations and expenditures are accounted for through FACS. In the case of requesting payments from the Treasury Department, most are processed by means of a magnetic tape produced by the FACS.

A.I.D. is currently processing approximately 250,000 transactions into FACS each month. The Agency has eliminated many "cuff" records as non-FM personnel are using the on-line information capabilities of FACS to determine the obligation/expenditure status of their projects. Our problem is an inability to make the changes needed to bring up the rest of the system and allow it to interface electronically with our mission accounting and control system (MACS) and our other management systems.

We feel that it will be very costly to rewrite the FACS code to make it usable and have discussed this situation with OMB. As a result, A.I.D. is seeking contractor assistance to document our current requirements and develop a design for a system which will meet our needs. The primary emphasis will be toward ultimately selecting an "off-the-shelf" system already approved by the GSA and modifying it as needed to meet specific Agency needs. We believe this will allow us to use the knowledge gained in creating and using FACS which should increase our chances for success.

SENATOR LEAHY: Second, has any effort been made to establish accountability for this appalling example of waste? Or did

everyone connected with it get promoted, as they seem to have done with the notorious $300 million Helwan Housing Project in Cairo?

AMB. EDELMAN: I can only answer that by advising you that no promotions were given to anyone in the Office of Financial Management as a result of their work on FACS. In addition, none of the managers who were involved with this effort currently occupy the senior positions they did during the time of the contract.

At the time we developed the scope of work for the FACS contract, the only similar project we could find had been done at USIA almost ten years earlier. Today, when several federal departments and agencies have implemented or are in the process of implementing "off-the-shelf" systems, there are few success stories. Most organizations must spend millions of dollars modifying these core systems to meet their management needs. The real advantage today is the ability to talk with these other agencies and learn from their experience. We are and will continue to do that.

SENATOR LEAHY: Amb. Edelman, in the absence of a workable centralized financial accounting and control system, how on earth can you claim A.I.D. knows what is happening to its funds and that top management has any real control over financial operations at all?

AMB. EDELMAN: The centralized financial accounting and control system (FACS) is not a system that meets the entire range of A.I.D.'s management needs. The FACS system is providing us with basic accounting and control. I am submitting to you, Senator, a copy of a report that provides the status of all funds available for obligation under A.I.D.'s appropriation act including the Direct Emergency Supplemental Appropriation Act approved May 25, 1990. Our problem is with the software used and the way the system was coded. FACS was designed and developed under a fixed price contract signed 12 years ago. Hardware, software and design concepts have changed greatly since that time. What appeared to be "state-of-the-art" then, is difficult to work with in comparison with what is available today. Even what may appear to be a minor change can take months to reprogram. As a result, we have had to retain some of our old manual and automated systems and, in several cases, run them in parallel with FACS.

However, let me add that the system was designed with internal control and prompt pay in mind. FACS has a tight security module built in which meets the OMB Circular A-123 requirements. It also meets the basic requirements for prompt pay. Again, as changes are made to these requirements, we have difficulty getting FACS software updated.

It should be noted, Senator, that the Inspector General found MACS, the overseas Mission Accounting and Control System, was "meeting established accounting and financial management requirements and processing payment transactions properly". The Agency does feel comfortable with the integrity of our mission accounting records.

AGENCY FOR INTERNATIONAL DEVELOPMENT FLASH REPORT

WORLDWIDE FINANCIAL STATUS OF FISCAL YEAR 1990
PROGRAM-MAY 31, 1990

FOREWARD

This report reflects the present status of all funds available for obligation under the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990 approved November 21, 1989 (P.L. 101-167) and the Dire Emergency Supplemental Appropriations Act approved May 25, 1990 (P.L. 101-302) for all Foreign Assistance activities administered by or through the Agency for International Development during fiscal year 1990.

The amounts shown under the "Budget Allowance Issued" column are within the levels and guidelines approved by the Administrator.

Questions regarding any information in this report should be referred to PPM/FM/FC, 663-2170.

NOTE: Detail may not add to totals due to rounding. Obligation data is based on preliminary information; amounts may differ from actual month-end closing amounts.

Prepared by:

Office of Financial Management, FC
Bureau for Program and Policy Coord., PB

June 7, 1990

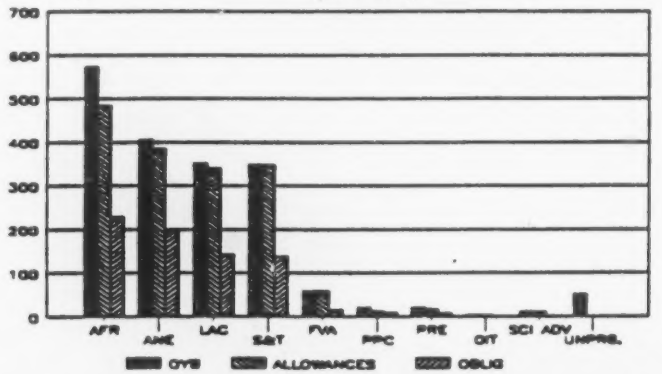
HIGHLIGHTS

Funds for FY 1990, which began October 1, 1989, were made available by the following Continuing Resolutions: (P.L 101-100) approved September 29, 1989, (P.L. 101-130) approved October 26, 1989, and (P.L. 101-154) approved November 15, 1989, and appropriation (P.L. 101-167) approved November 21, 1989.

The charts below show obligations and allowances of Agency operating bureaus and offices in relation to the Operational Year Budget.

FUNCTIONAL ACCOUNTS & DEVELOPMENT FUND FOR AFRICA

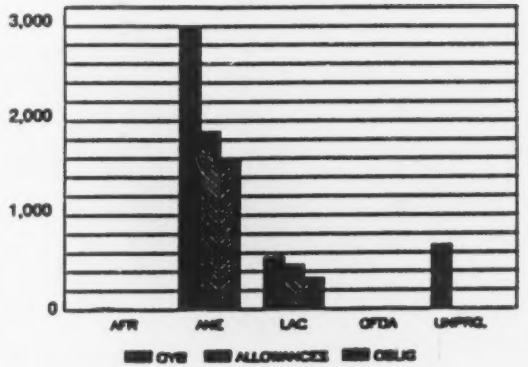
($ Millions)



	AFR	ANE	LAC	S&T	FVA	PPC	PRE	OIT	SCI ADV	UN-PROG
OYB	572.3	405.3	350.8	348.7	59.3	20.9	21.2	2.0	11.1	50.6
ALLOWANCE	483.8	384.8	340.2	347.1	59.3	11.1	16.0	2.0	10.3	0.0
OBLIG	228.9	197.5	142.3	137.1	14.8	8.7	6.5	0.1	0.1	0.0

ECONOMIC SUPPORT FUND

($ Millions)



	AFR	ANE	LAC	OFDA	UN-PROG
OYB	13.9	2,971.3	554.5	5.0	680.1
ALLOWANCE	3.9	1,884.7	466.7	5.0	0.0
OBLIG	0.0	1,585.0	328.7	5.0	0.0

PPC/PB
31-MAY-90

ESTIMATED FUND AVAILABILITY AND CURRENT PROGRAM

SUMMARY TABLE I

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

APPROPRIATION TITLE	NEW OBLIGATIONAL AUTHORITY a/	UNOBLIG CARRY OVER b/	ESTIMATED TRANSFERS c/	ESTIMATED REIMBURSE	ESTIMATED RECOVS	ESTIMATED TOTAL AVAILABILITY	OPERATIONAL YR BUDGET PROGRAMMED	OPERATIONAL YR BUDGET UNPROGRAMMED
FUNCTIONAL DEVELOPMENT ASSISTANCE								
AGRIC RURAL DEV & NUTRITION	481,639	6,686		50	26,323	514,684	486,841	15,853
POPULATION PLANNING	216,171	3,496		600	1,180	221,487	214,923	6,534
HEALTH	134,858	4,487			5,727	145,173	127,933	17,240
INT'L AIDS PREV. & CONTROL	41,239					41,340	41,239	1
CHILD SURVIVAL FUND	70,699	2,465			16	73,176	71,290	1,886
EDUC & HUMAN RESOURCES DEV	131,988	4,303			1,686	137,978	136,678	1,300
PRI SECTOR, ENVIR. & ENERGY	160,456	1,573	-13,500		4,966	153,496	145,713	7,774
TOTAL - FUNCTIONAL	1,237,147	23,008	-13,500	650	39,887	1,287,204	1,236,617	50,587
(OF WHICH GRANTS)	(1,236,647)(	20,421)(	-13,500)(	650)(	39,887)(	1,284,116) (	1,236,117)(	47,999)
(OF WHICH LOANS)	(	2,588)			(	2,588) (	2,588)	
(OF WHICH OTHER)	(500)				(	500) (	500)	
SPECIAL ASSISTANCE INITIATIVES	198,312					198,312	188,312	
SUB-SAHARAN AFRICA DEV. ASST.	871,823	637			129	872,589	861,805	10,784
SAHEL DEVELOPMENT PROGRAM		162			959	1,121		1,121
PRIVATE SECTOR REVOLVING FUND		25,377		497	5,500	31,374	3,489	27,885
(OF WHICH LOANS)	(25,377)		(	497)(	5,500)(	31,374) (	3,489)(	27,885)
INTERNATIONAL ORG. & PROGRAMS	260,637		13,500			274,137	239,699	34,438
AMERICAN SCHOOLS & HOSP ABROAD	34,850					34,850	34,850	
INTERNATIONAL DISASTER ASSIST.	29,883	4,222	2,845			36,950	26,610	10,341
ECONOMIC SUPPORT FUND	3,965,988	227,908			30,763	4,224,656	3,844,600	680,056
(OF WHICH GRANTS)	(3,955,988)(	227,908)		(	30,763)(	4,214,656) (	3,844,600)(	670,056)
(OF WHICH OTHER)	(10,000)				(	10,000) (	(	10,000)
CEN. AM. RECONCILIATION ASST.		30,388	12,900		6,581	39,836	37,226	2,612
PEACEKEEPING OPERATIONS	32,773					32,773	32,773	
TRADE AND DEVELOPMENT PROGRAM	31,488	906		50		32,496	28,519	2,838
(OF WHICH GRANTS)	(28,508)(	906)	(	50)	(	29,464) (	27,688)(	1,775)
(OF WHICH LOANS)	(182)				(	192) (	192)	
(OF WHICH OTHER)	(2,800)				(	2,800) (	1,638)(	1,162)
OPERATING EXPENSES	429,044	1,512	1,000	5,500	1,880	438,648	397,883	41,063
INSPECTOR GENERALS OFFICE	30,483					30,483	30,329	154
FOREIGN SERV. RET. & DISAB. FUND	40,147					40,147	40,147	
GRAND TOTAL	6,823,568	304,085	18,745	6,697	89,418	7,236,511	6,374,961	861,950

a/ Pursuant to the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990 approved November 21, 1989 (P.L. 101-167) and the Supplemental Appropriations Act approved May 25, 1990 (P.L. 101-302). Amounts reflect the reductions required by Sec. 601 of P.L. 101-167 and the 0.84% sequester required by P.L.s 99-177, 100-119 and 101-239.

b/ Excludes $30,000 ESF subject to rescission pursuant to Sec. 589 of P.L. 101-167.

c/ Includes the following transfers pursuant to Sec. 536 of P.L. 101-167, $13,300 from PEEE to IDRP; pursuant to P.L. 101-179, $2,845 from D.A.D. to STATE TO IDA; pursuant to P.L. 101-14, $12,900 from D.A.D. to CABEI and $1,000 from D.A.D. to OE.

ESTIMATED AVAILABLE FUNDS BY APPROPRIATION

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

SUMMARY TABLE II

APPROPRIATION TITLE	ESTIMATED TOTAL AVAILABILITY	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	BUDGET ALLOWANCE AS A PERCENT OF AVAILABILITY	OBLIGATIONS AS A PERCENT OF AVAILABILITY
FUNCTIONAL DEVELOPMENT ASSISTANCE					
AGRICULTURE RURAL DEV & NUTRITION	514,684	479,061	233,559	93.0	45.3
POPULATION PLANNING	221,457	210,009	75,719	94.8	34.1
HEALTH DEVELOPMENT ASSISTANCE	145,173	122,418	46,860	84.3	32.2
INTERNATIONAL AIDS PREVENTION & CONTROL	41,240	41,087	32,984	99.6	79.9
CHILD SURVIVAL FUND	73,176	70,787	30,151	96.7	41.2
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	137,978	131,690	52,138	95.4	37.7
PRIVATE SECTOR, ENVIRONMENT & ENERGY	153,496	139,402	46,916	90.8	30.6
TOTAL - FUNCTIONAL	1,287,204	1,190,410	518,327	92.4	40.2
(OF WHICH GRANTS)	(1,284,116)	(1,189,910)	(518,166)	(92.6)	(40.3)
(OF WHICH LOANS)	(2,588)				
(OF WHICH OTHER)	(900)	(900)	(161)	(100.0)	(32.1)
SPECIAL ASSISTANCE INITIATIVES	159,312	45,000	11,000	28.2	6.9
SUB-SAHARAN AFRICA DEV. ASST.	972,589	474,192	221,871	82.8	38.7
SAHEL DEVELOPMENT PROGRAM	1,121				
PRIVATE SECTOR REVOLVING FUND	31,374				
(OF WHICH LOANS)	(31,374)				
INTERNATIONAL ORGANIZATIONS AND PROGRAMS	274,137	238,699	233,221	87.4	85.0
AMERICAN SCHOOLS AND HOSPITALS ABROAD	34,850	34,850	26	100.0	
INTERNATIONAL DISASTER ASSISTANCE	36,958	23,466	17,494	63.4	47.3
ECONOMIC SUPPORT FUND	4,224,656	2,362,283	1,923,663	55.9	45.5
(OF WHICH GRANTS)	(4,214,656)	(2,362,283)	(1,923,663)	(56.0)	(45.6)
(OF WHICH OTHER)	(10,000)				
CENTRAL AM. RECONCILIATION ASSIST.	39,836	37,225	36,512	93.4	91.6
PEACEKEEPING OPERATIONS	32,773	32,773	31,637	100.0	96.5
TRADE AND DEVELOPMENT PROGRAM	32,456	27,529	10,241	84.8	31.5
(OF WHICH GRANTS)	(29,464)	(29,698)	(8,990)	(87.2)	(30.4)
(OF WHICH LOANS)	(192)	(192)		(100.0)	
(OF WHICH OTHER)	(2,800)	(1,638)	(1,261)	(58.5)	(45.0)
OPERATING EXPENSES OF AID	438,646	327,175	275,727	74.5	62.8
INSPECTOR GENERALS OFFICE	30,453	23,651	17,860	74.3	58.6
FOREIGN SERVICE RETIREMENT & DISABILITY FUND	40,147	40,147	40,147	100.0	100.0
GRAND TOTAL	7,236,511	4,697,398	3,337,726	67.1	46.1

ESTIMATED AVAILABLE FUNDS BY BUREAU

SUMMARY TABLE III

AS OF MAY 31, 1980

(THOUSANDS OF DOLLARS)

BUREAU AND APPROPRIATION TITLE	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	BUDGET ALLOWANCE AS A PERCENT OF PROGRAMMED OYB	OBLIGATIONS AS A PERCENT OF PROGRAMMED OYB
BUREAU FOR AFRICA	586,196	487,714	228,870	83.2	39.0
AGRICULTURE RURAL DEV & NUTRITION	781				
(OF WHICH GRANTS)	(781)				
POPULATION PLANNING	2,810	2,682		95.4	
(OF WHICH GRANTS)	(2,810)	(2,682)		(95.4)	
HEALTH DEVELOPMENT ASSISTANCE	2,809	2,530	2,530	97.1	97.1
(OF WHICH GRANTS)	(2,809)	(2,530)	(2,530)	(97.1)	(97.1)
INTERNATIONAL AIDS PREVENTION & CONTROL	3,308	3,308	1,064	100.0	32.1
(OF WHICH GRANTS)	(3,308)	(3,308)	(1,064)	(100.0)	(32.1)
CHILD SURVIVAL FUND	16				
(OF WHICH GRANTS)	(16)				
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	3,409	3,409	3,409	100.0	100.0
(OF WHICH GRANTS)	(3,409)	(3,409)	(3,409)	(100.0)	(100.0)
PRIVATE SECTOR, ENVIRONMENT & ENERGY	1,300	1,300		100.0	
(OF WHICH GRANTS)	(1,300)	(1,300)		(100.0)	
SUBTOTAL FUNCTIONAL APPROPRIATIONS	14,238	13,226	6,999	92.9	49.1
(OF WHICH GRANTS)	(14,238)	(13,226)	(6,999)	(92.9)	(49.1)
SUB-SAHARAN AFRICA DEV. ASST.	586,107 a/	470,591 a/	221,871	84.3	39.7
ECONOMIC SUPPORT FUND	13,864	3,887		28.1	
(OF WHICH GRANTS)	(13,864)	(3,887)		(28.1)	

a/ Excludes for centrally procured commodities; $2,731 included in S & T's planning and allowed levels.

ESTIMATED AVAILABLE FUNDS BY BUREAU

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

SUMMARY TABLE III

BUREAU AND APPROPRIATION TITLE	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	BUDGET ALLOWANCE AS A PERCENT OF PROGRAMMED OYB	OBLIGATIONS AS A PERCENT OF PROGRAMMED OYB
BUREAU FOR ASIA, NEAR EAST AND EUROPE	3,538,716	2,317,350	1,784,081	65.4	50.7
AGRICULTURE RURAL DEV & NUTRITION	188,286	189,447	100,724	99.8	90.8
(OF WHICH GRANTS)	(187,786)	(188,947)	(100,564)	(99.8)	(90.8)
(OF WHICH OTHER)	(500)	(500)	(161)	(100.0)	(32.1)
POPULATION PLANNING	50,738 a/	49,903 a/	34,177	98.3	67.3
(OF WHICH GRANTS)	(50,738)	(49,903)	(34,177)	(98.3)	(67.3)
HEALTH DEVELOPMENT ASSISTANCE	48,853	45,426	18,180	92.9	37.1
(OF WHICH GRANTS)	(48,853)	(45,426)	(18,180)	(92.9)	(37.1)
INTERNATIONAL AIDS PREVENTION & CONTROL	1,012	1,012	1,012	100.0	100.0
(OF WHICH GRANTS)	(1,012)	(1,012)	(1,012)	(100.0)	(100.0)
CHILD SURVIVAL FUND	13,928	13,628	9,569	97.8	68.7
(OF WHICH GRANTS)	(13,928)	(13,628)	(9,569)	(97.8)	(68.7)
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	50,523	47,104	23,167	93.2	46.8
(OF WHICH GRANTS)	(50,523)	(47,104)	(23,167)	(93.2)	(46.8)
PRIVATE SECTOR, ENVIRONMENT & ENERGY	41,956	38,320	10,733	91.3	25.8
(OF WHICH GRANTS)	(41,956)	(38,320)	(10,733)	(91.3)	(25.8)
SUBTOTAL FUNCTIONAL APPROPRIATIONS	408,275	384,841	197,941	94.9	48.7
(OF WHICH GRANTS)	(404,775)	(384,341)	(197,381)	(94.9)	(48.7)
(OF WHICH OTHER)	(500)	(500)	(161)	(100.0)	(32.1)
SPECIAL ASSISTANCE INITIATIVES	158,312	45,000	11,000	28.2	6.9
INTERNATIONAL DISASTER ASSISTANCE	2,845	2,845	999	100.0	19.6
ECONOMIC SUPPORT FUND	2,971,284	1,884,668	1,884,981	63.4	93.3
(OF WHICH GRANTS)	(2,971,284)	(1,884,668)	(1,884,981)	(63.4)	(93.3)

a/ Excludes [illegible] centrally procured commodities; $12,[illegible] included in S & T's planning and allowed levels.

SUMMARY TABLE III

ESTIMATED AVAILABLE FUNDS BY BUREAU

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

BUREAU AND APPROPRIATION TITLE	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	BUDGET ALLOWANCE AS A PERCENT OF PROGRAMMED OYB	OBLIGATIONS AS A PERCENT OF PROGRAMMED OYB
BUREAU FOR LATIN AMERICA & THE CARIBBEAN	911,089	814,787	481,704	89.4	52.8
AGRICULTURE RURAL DEV & NUTRITION	137,978	133,198	64,842	96.5	46.9
(OF WHICH GRANTS)	(137,978)	(133,198)	(64,842)	(96.5)	(46.9)
POPULATION PLANNING	29,970 a/	24,747 a/	9,644	82.2	32.1
(OF WHICH GRANTS)	(29,970)	(24,747)	(9,644)	(82.2)	(32.1)
HEALTH DEVELOPMENT ASSISTANCE	31,561	31,471	11,150	99.7	35.3
(OF WHICH GRANTS)	(31,561)	(31,471)	(11,150)	(99.7)	(35.3)
INTERNATIONAL AIDS PREVENTION & CONTROL	3,226	3,084	2,198	95.6	68.1
(OF WHICH GRANTS)	(3,226)	(3,084)	(2,198)	(95.6)	(68.1)
CHILD SURVIVAL FUND	24,027	24,027	14,001	100.0	58.2
(OF WHICH GRANTS)	(24,027)	(24,027)	(14,001)	(100.0)	(58.2)
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	69,779	69,617	19,051	99.7	27.3
(OF WHICH GRANTS)	(69,779)	(69,617)	(19,051)	(99.7)	(27.3)
PRIVATE SECTOR, ENVIRONMENT & ENERGY	58,297	54,102	21,436	92.8	36.7
(OF WHICH GRANTS)	(58,297)	(54,102)	(21,436)	(92.8)	(36.7)
SUBTOTAL FUNCTIONAL APPROPRIATIONS	380,837	340,246	142,321	89.3	40.5
(OF WHICH GRANTS)	(380,837)	(340,246)	(142,321)	(89.3)	(40.5)
ECONOMIC SUPPORT FUND	504,483	468,721	333,683	84.5	60.1
(OF WHICH GRANTS)	(504,462)	(468,721)	(333,683)	(84.5)	(60.1)
CENTRAL AM. RECONCILIATION ASSIST.	5,800	5,800	5,700	100.0	98.2

a/ Excludes for centrally procured commodities;
$1,382 included in S & T's planning and
allowance accounts.

ESTIMATED AVAILABLE FUNDS BY BUREAU

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

SUMMARY TABLE III

BUREAU AND APPROPRIATION TITLE	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	BUDGET ALLOWANCE AS A PERCENT OF PROGRAMMED OYB	OBLIGATIONS AS A PERCENT OF PROGRAMMED OYB
BUREAU FOR SCIENCE AND TECHNOLOGY	398,751	387,376	137,940	96.3	34.3
AGRICULTURE RURAL DEV & NUTRITION	114,972	114,972	53,742	100.0	46.7
(OF WHICH GRANTS)	(114,972)	(114,972)	(53,742)	(100.0)	(46.7)
POPULATION PLANNING	132,134 a/	130,848 a/	31,268	99.0	23.6
(OF WHICH GRANTS)	(132,134)	(130,848)	(31,268)	(99.0)	(23.6)
HEALTH DEVELOPMENT ASSISTANCE	33,379	33,379	12,589	100.0	38.8
(OF WHICH GRANTS)	(33,379)	(33,379)	(12,589)	(100.0)	(38.8)
INTERNATIONAL AIDS PREVENTION & CONTROL	33,693	33,693	28,709	100.0	88.2
(OF WHICH GRANTS)	(33,693)	(33,693)	(28,709)	(100.0)	(88.2)
CHILD SURVIVAL FUND	20,588	20,401	6,473	99.0	31.4
(OF WHICH GRANTS)	(20,588)	(20,401)	(6,473)	(99.0)	(31.4)
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	4,987	4,987	3,194	100.0	64.4
(OF WHICH GRANTS)	(4,987)	(4,987)	(3,194)	(100.0)	(64.4)
PRIVATE SECTOR, ENVIRONMENT & ENERGY	18,201	17,396	1,866	95.5	10.8
(OF WHICH GRANTS)	(18,201)	(17,396)	(1,866)	(95.5)	(10.8)
SUBTOTAL FUNCTIONAL APPROPRIATIONS	396,923	394,648	137,940	99.3	34.8
(OF WHICH GRANTS)	(396,923)	(394,648)	(137,940)	(99.3)	(34.8)
SUB-SAHARAN AFRICA DEV. ASST.	3,828 a/	3,731 a/		96.8	

a/ Includes $14,062 of POP and $2,731 of SSA of Regional Bureaus planning and allowed levels.

ESTIMATED AVAILABLE FUNDS BY BUREAU

SUMMARY TABLE III

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

BUREAU AND APPROPRIATION TITLE	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	BUDGET ALLOWANCE AS A PERCENT OF PROGRAMMED OYB	OBLIGATIONS AS A PERCENT OF PROGRAMMED OYB
BUREAU FOR FOOD FOR PEACE AND VOL. ASSIST	84,103	84,103	14,813	100.0	18.7
AGRICULTURE RURAL DEV & NUTRITION	28,884	28,884	7,870	100.0	28.1
(OF WHICH GRANTS)	(28,884)	(28,884)	(7,870)	(100.0)	(28.1)
HEALTH DEVELOPMENT ASSISTANCE	6,304	6,304	1,868	100.0	29.8
(OF WHICH GRANTS)	(6,304)	(6,304)	(1,868)	(100.0)	(29.8)
CHILD SURVIVAL FUND	12,731	12,731	106	100.0	0.8
(OF WHICH GRANTS)	(12,731)	(12,731)	(106)	(100.0)	(0.8)
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	4,067	4,067	1,877	100.0	46.6
(OF WHICH GRANTS)	(4,067)	(4,067)	(1,877)	(100.0)	(46.6)
PRIVATE SECTOR, ENVIRONMENT & ENERGY	6,288	6,288	3,263	100.0	91.8
(OF WHICH GRANTS)	(6,288)	(6,288)	(3,263)	(100.0)	(91.8)
SUBTOTAL FUNCTIONAL APPROPRIATIONS	58,384	58,384	14,787	100.0	28.3
(OF WHICH GRANTS)	(58,384)	(58,384)	(14,787)	(100.0)	(28.3)
SUB-SAHARAN AFRICA DEV. ASST.	870	870		100.0	
AMERICAN SCHOOLS AND HOSPITALS ABROAD	34,850	34,850	26	100.0	
INTERNATIONAL ORGANIZATIONS AND PROGRAMS	272,472	272,472	264,868	100.0	97.2
INTERNATIONAL ORGANIZATIONS AND PROGRAMS	239,699	239,699	233,231	100.0	97.3
PEACEKEEPING OPERATIONS	32,773	32,773	31,637	100.0	96.5

ESTIMATED AVAILABLE FUNDS BY BUREAU

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

SUMMARY TABLE III

BUREAU AND APPROPRIATION TITLE	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	BUDGET ALLOWANCE AS A PERCENT OF PROGRAMMED OYB	OBLIGATIONS AS A PERCENT OF PROGRAMMED OYB
OTHER PROGRAMS	612,224	513,618	416,461	83.8	67.9
AGRICULTURE RURAL DEV & NUTRITION	17,840	12,440	6,680	69.7	37.4
(OF WHICH GRANTS)	(17,840)	(12,440)	(6,680)	(69.7)	(37.4)
POPULATION PLANNING	3,277	1,824	634	55.7	19.3
(OF WHICH GRANTS)	(3,277)	(1,824)	(634)	(55.7)	(19.3)
HEALTH DEVELOPMENT ASSISTANCE	6,231	4,308	562	69.1	9.0
(OF WHICH GRANTS)	(6,231)	(4,308)	(562)	(69.1)	(9.0)
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	3,947	2,900	1,344	63.3	34.0
(OF WHICH GRANTS)	(3,947)	(2,900)	(1,344)	(63.3)	(34.0)
PRIVATE SECTOR, ENVIRONMENT & ENERGY	19,672	17,988	9,518	91.4	48.3
(OF WHICH GRANTS)	(19,672)	(17,988)	(9,518)	(91.4)	(48.3)
SUBTOTAL FUNCTIONAL APPROPRIATIONS	50,963	39,069	18,740	76.6	36.7
(OF WHICH GRANTS)	(50,963)	(39,069)	(18,740)	(76.6)	(36.7)
PRIVATE SECTOR REVOLVING FUND	3,489				
(OF WHICH LOANS)	(3,489)				
INTERNATIONAL DISASTER ASSISTANCE	23,773	20,631	16,936	86.7	71.2
ECONOMIC SUPPORT FUND	9,000	9,000	9,000	100.0	100.0
(OF WHICH GRANTS)	(9,000)	(9,000)	(9,000)	(100.0)	(100.0)
CENTRAL AM. RECONCILIATION ASSIST.	31,429	31,429	30,813	100.0	98.0
TRADE AND DEVELOPMENT PROGRAM	39,519	27,526	10,241	83.3	24.6
(OF WHICH GRANTS)	(27,688)	(25,688)	(8,980)	(92.8)	(32.4)
(OF WHICH LOANS)	(192)	(192)		(100.0)	
(OF WHICH OTHER)	(1,638)	(1,638)	(1,261)	(100.0)	(76.9)
OPERATING EXPENSES OF AID	387,583	337,179	278,727	82.3	69.3
INSPECTOR GENERAL'S OFFICE	30,329	22,681	17,880	74.8	58.8
FOREIGN SERVICE RETIREMENT & DISABILITY FUND	40,147	40,147	40,147	100.0	100.0
GRAND TOTAL	6,374,361	4,687,398	3,337,738	78.2	52.3

ESTIMATED AVAILABLE FUNDS BY COUNTRY

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

BUREAU FOR AFRICA

COUNTRY AND/OR PROGRAM	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
BENIN	919	919	879	40	
SUB-SAHARAN AFRICA DEV ASST	919	919	879	40	
BOTSWANA	7,830	7,830	6,000	1,830	
SUB-SAHARAN AFRICA DEV ASST	7,830	7,830	6,000	1,830	
BURKINA FASO	3,700	3,194	1,900	294	506
SUB-SAHARAN AFRICA DEV ASST	3,700	3,194	1,900	294	506
BURUNDI	18,782	18,782	16,762	2,020	
SUB-SAHARAN AFRICA DEV ASST	18,782	18,782	16,762	2,020	
CAMEROON	20,630	20,630	2,062	18,568	
SUB-SAHARAN AFRICA DEV ASST	20,630	20,630	2,062	18,568	
CAPE VERDE	2,390	2,390	1,000	1,390	
SUB-SAHARAN AFRICA DEV ASST	2,390	2,390	1,000	1,390	
CENTRAL AFRICAN REPUBLIC	900	900		900	
SUB-SAHARAN AFRICA DEV ASST	900	900		900	

ESTIMATED AVAILABLE FUNDS BY COUNTRY

AS OF MAY 31, 1980

(THOUSANDS OF DOLLARS)

BUREAU FOR AFRICA

COUNTRY AND/OR PROGRAM	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
CHAD	9,250	9,250	9,250		
SUB-SAHARAN AFRICA DEV. ASST.	9,250	9,250	9,250		
COMOROS	700	700	700		
SUB-SAHARAN AFRICA DEV. ASST.	700	700	700		
CONGO (BRAZZAVILLE)	900	900	900		
SUB-SAHARAN AFRICA DEV. ASST.	900	900	900		
DJIBOUTI, DEMOCRATIC REPUBLIC OF	1,908	1,908		1,908	
ECONOMIC SUPPORT FUND	1,908	1,908		1,908	
EQUATORIAL GUINEA, REPUBLIC OF	800	800	800		
SUB-SAHARAN AFRICA DEV. ASST.	800	800	800		
GAMBIA	4,688	4,688	3,623	1,062	
SUB-SAHARAN AFRICA DEV. ASST.	4,688	4,688	3,623	1,062	
GHANA	13,800	9,939	69	9,870	7,861
SUB-SAHARAN AFRICA DEV. ASST.	13,800	9,939	69	9,870	7,861

ESTIMATED AVAILABLE FUNDS BY COUNTRY

BUREAU FOR AFRICA

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

COUNTRY AND/OR PROGRAM	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
GUINEA	14,481	13,250	1,750	11,500	1,231
SUB-SAHARAN AFRICA DEV. ASST.	14,481	13,250	1,750	11,500	1,231
GUINEA - BISSAU	2,080	2,080		2,080	
SUB-SAHARAN AFRICA DEV. ASST.	2,080	2,080		2,080	
IVORY COAST	20	20	20		
SUB-SAHARAN AFRICA DEV. ASST.	20	20	20		
KENYA	32,463	32,463	20,489	11,994	
DEVELOPMENT GRANTS	(2,683)	(2,683)		(2,683)	
POPULATION PLANNING	2,683	2,683		2,683	
SUB-SAHARAN AFRICA DEV. ASST.	29,780	29,780	20,489	9,311	
LESOTHO	6,367	6,367	6,367		
SUB-SAHARAN AFRICA DEV. ASST.	6,367	6,367	6,367		
MADAGASCAR	18,300	5,900	5,607	293	12,400
SUB-SAHARAN AFRICA DEV. ASST.	18,300	5,900	5,607	293	12,400

ESTIMATED AVAILABLE FUNDS BY COUNTRY

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

BUREAU FOR AFRICA

COUNTRY AND/OR PROGRAM	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
MALAWI	19,275	14,275	4,775	9,500	5,000
SUB-SAHARAN AFRICA DEV. ASST.	19,275	14,275	4,775	9,500	5,000
MALI	16,610	11,610	8,225	3,388	5,000
SUB-SAHARAN AFRICA DEV. ASST.	16,610	11,610	8,225	3,388	5,000
MAURITANIA	90	90		90	
SUB-SAHARAN AFRICA DEV. ASST.	90	90		90	
MAURITIUS	1,500				1,500
SUB-SAHARAN AFRICA DEV. ASST.	1,500				1,500
MOZAMBIQUE	30,600	30,600	1,908	28,692	
DEVELOPMENT GRANTS	(1,000)	(1,000)		(1,000)	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	1,000	1,000		1,000	
SUB-SAHARAN AFRICA DEV. ASST.	29,600	29,600	1,908	27,692	
NAMIBIA	500				500
SUB-SAHARAN AFRICA DEV. ASST.	500				500

ESTIMATED AVAILABLE FUNDS BY COUNTRY

BUREAU FOR AFRICA

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

COUNTRY AND/OR PROGRAM	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
NIGER	16,460	16,460	7,840	8,620	
SUB-SAHARAN AFRICA DEV. ASST.	16,460	16,460	7,840	8,620	
NIGERIA	8,000	8,000		8,000	
SUB-SAHARAN AFRICA DEV. ASST.	8,000	8,000		8,000	
REDSO/EA	1,400	1,400		1,400	
SUB-SAHARAN AFRICA DEV. ASST.	1,400	1,400		1,400	
RWANDA	7,500	7,500	5,396	2,104	
SUB-SAHARAN AFRICA DEV. ASST.	7,500	7,500	5,396	2,104	
SAO TOME AND PRINCIPE	300	300	300		
SUB-SAHARAN AFRICA DEV. ASST.	300	300	300		
SENEGAL	36,000	36,000	30,000	6,000	
SUB-SAHARAN AFRICA DEV. ASST.	36,000	36,000	30,000	6,000	
SEYCHELLES	1,991	1,991		1,991	
ECONOMIC SUPPORT FUND	1,991	1,991		1,991	

ESTIMATED AVAILABLE FUNDS BY COUNTRY

AS OF MAY 31, 1980

(THOUSANDS OF DOLLARS)

BUREAU FOR AFRICA

COUNTRY AND/OR PROGRAM	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
SIERRA LEONE	500	500		500	
SUB-SAHARAN AFRICA DEV. ASST.	500	500		500	
SOMALIA	740	740	740		
SUB-SAHARAN AFRICA DEV. ASST.	740	740	740		
SOUTH AFRICA, REPUBLIC OF	31,557	12,350	6,592	5,758	19,207
SUB-SAHARAN AFRICA DEV. ASST.	21,600	12,350	6,592	5,758	9,250
ECONOMIC SUPPORT FUND	9,957				9,957
SWAZILAND	6,000	6,000	6,198	-198	
SUB-SAHARAN AFRICA DEV. ASST.	6,000	6,000	6,198	-198	
TANZANIA	5,860	2,010	1,630	380	3,850
SUB-SAHARAN AFRICA DEV. ASST.	5,860	2,010	1,630	380	3,850
TOGO	3,348	3,348	3,181	167	
SUB-SAHARAN AFRICA DEV. ASST.	3,348	3,348	3,181	167	

ESTIMATED AVAILABLE FUNDS BY COUNTRY

BUREAU FOR AFRICA

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

COUNTRY AND/OR PROGRAM	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
UGANDA	17,650	10,650	10,350	300	7,000
DEVELOPMENT GRANTS	(300)	(300)		(300)	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	300	300		300	
SUB-SAHARAN AFRICA DEV. ASST.	17,350	10,350	10,350		7,000
ZAIRE	28,300	28,300	8,300	20,000	
SUB-SAHARAN AFRICA DEV. ASST.	28,300	28,300	8,300	20,000	
ZAMBIA	4,860	4,860	4,860		
SUB-SAHARAN AFRICA DEV. ASST.	4,860	4,860	4,860		
ZIMBABWE	5,000	5,000	189	4,811	
SUB-SAHARAN AFRICA DEV. ASST.	5,000	5,000	189	4,811	
AFR SELF HELP	3,375	3,133	1,052	2,082	242
SUB-SAHARAN AFRICA DEV. ASST.	3,375	3,133	1,052	2,082	242
AFRICA REGIONAL	134,446	102,545	43,852	58,693	31,900
DEVELOPMENT GRANTS	(10,252)	(9,243)	(6,999)	(2,244)	(1,008)
AGRICULTURE RURAL DEV & NUTRITION	791				791
POPULATION PLANNING	127				127
HEALTH DEVELOPMENT ASSISTANCE	2,605	2,530	2,530		75
INTERNATIONAL AIDS PREVENTION & CONTROL	3,308	3,308	1,064	2,244	
CHILD SURVIVAL FUND	16				16
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	3,405	3,405	3,405		
SUB-SAHARAN AFRICA DEV. ASST.	124,194 a/	93,302 a/	36,854	56,449	30,892
SOUTHERN AFRICA REGIONAL	48,235	48,950	9,731	37,219	2,288
SUB-SAHARAN AFRICA DEV. ASST. b/	48,235	48,950	9,731	37,219	2,288

a/ Excludes for centrally programmed commodities; $2,731 included in S & T's planning and allowed levels.

b/ SADCC funds.

ESTIMATED AVAILABLE FUNDS BY COUNTRY

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

BUREAU FOR ASIA, NEAR EAST AND EUROPE

COUNTRY AND/OR PROGRAM	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
AFGHANISTAN	71,929	70,229	50,256	19,972	1,700
DEVELOPMENT GRANTS	(34,629)	(34,629)	(24,697)	(9,932)	
AGRICULTURE RURAL DEV & NUTRITION	22,329	22,329	16,864	5,465	
HEALTH DEVELOPMENT ASSISTANCE	9,800	9,800	5,333	4,467	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	2,500	2,500	2,500		
INTERNATIONAL DISASTER ASSISTANCE	2,450	2,450	559	1,891	
ECONOMIC SUPPORT FUND	34,850	33,150	25,000	8,150	1,700
ARMENIAN EARTHQUAKE	4,979	4,979	67	4,911	
ECONOMIC SUPPORT FUND	4,979	4,979	67	4,911	
BANGLADESH	44,601	44,601	20,204	24,397	
DEVELOPMENT GRANTS	(44,601)	(44,601)	(20,204)	(24,397)	
AGRICULTURE RURAL DEV & NUTRITION	21,200	21,200	2,964	18,236	
POPULATION PLANNING	14,300 a/	14,300 a/	9,342	4,958	
HEALTH DEVELOPMENT ASSISTANCE	2,500	2,500	2,500		
CHILD SURVIVAL FUND	3,000	3,000	2,398	602	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	1,801	1,801	1,500	301	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	1,800	1,800	1,500	300	
CYPRUS	14,836	4,979	4,979		9,857
ECONOMIC SUPPORT FUND	14,836	4,979	4,979		9,857
EAST EUROPEAN REGIONAL	82,248	75,848	56,848	18,998	6,400
DEVELOPMENT GRANTS	(50,881)	(48,481)	(32,993)	(15,488)	(2,400)
AGRICULTURE RURAL DEV & NUTRITION	19,641	19,641	18,645	996	0
POPULATION PLANNING	4,498	4,498	4,498		
HEALTH DEVELOPMENT ASSISTANCE	2,834	2,834	2,834		
INTERNATIONAL AIDS PREVENTION & CONTROL	1,012	1,012	1,012		
CHILD SURVIVAL FUND	1,471	1,471	1,471		
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	6,867	4,468	4,142	326	2,399
PRIVATE SECTOR, ENVIRONMENT & ENERGY	14,557	14,557	390	14,167	
AGRICULTURE RURAL DEV & NUTRITION b/	500	500	161	339	
ECONOMIC SUPPORT FUND	30,867	26,867	23,695	3,172	4,000

a/ Excludes for centrally procured commodities; $10,500 included in S & T's planning and allowed levels.

b/ Administrative Expenses

ESTIMATED AVAILABLE FUNDS BY COUNTRY

BUREAU FOR ASIA, NEAR EAST AND EUROPE

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

COUNTRY AND/OR PROGRAM	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
EGYPT (UAR)	926,496	206,100		206,100	720,396
ECONOMIC SUPPORT FUND	926,496	206,100		206,100	720,396
INDIA	23,200	20,600	9,000	11,600	2,600
DEVELOPMENT GRANTS	(23,200)	(20,600)	(9,000)	(11,600)	(2,600)
AGRICULTURE RURAL DEV & NUTRITION	8,000	5,400	4,800	600	2,600
HEALTH DEVELOPMENT ASSISTANCE	8,000	8,000	200	7,800	
CHILD SURVIVAL FUND	3,200	3,200		3,200	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	4,000	4,000	4,000		
INDONESIA	44,508	42,250	17,788	24,462	2,258
DEVELOPMENT GRANTS	(42,518)	(42,250)	(17,788)	(24,462)	(268)
AGRICULTURE RURAL DEV & NUTRITION	21,256	21,256	8,311	12,945	
POPULATION PLANNING	3,325	3,325	3,325		
HEALTH DEVELOPMENT ASSISTANCE	8,249	8,249	3,753	4,496	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	4,020	4,020		4,020	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	5,668	5,400	2,400	3,000	268
ECONOMIC SUPPORT FUND	1,991				1,991
INTERNAT'L FUND NO IRELAND & IRELAND	29,768	10,000	10,000		19,768
ECONOMIC SUPPORT FUND	29,768	10,000	10,000		19,768
ISRAEL	1,194,840	1,194,840	1,194,840		
ECONOMIC SUPPORT FUND	1,194,840	1,194,840	1,194,840		
JORDAN	34,850	3,700	3,700		31,150
ECONOMIC SUPPORT FUND	34,850	3,700	3,700		31,150
KAMPUCHEA	5,473	5,473	5,078	395	
INTERNATIONAL DISASTER ASSISTANCE	395	395		395	
ECONOMIC SUPPORT FUND	5,078	5,078	5,078		

ESTIMATED AVAILABLE FUNDS BY COUNTRY

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

BUREAU FOR ASIA, NEAR EAST AND EUROPE

COUNTRY AND/OR PROGRAM	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
LEBANON	7,445	6,250		6,250	1,195
DEVELOPMENT GRANTS	(3,711)	(2,516)		(2,516)	(1,195)
AGRICULTURE RURAL DEV & NUTRITION	2,538	1,344		1,344	1,194
POPULATION PLANNING	804	804		804	
HEALTH DEVELOPMENT ASSISTANCE	112	111		111	1
CHILD SURVIVAL FUND	257	257		257	
ECONOMIC SUPPORT FUND	3,734	3,734		3,734	
MOROCCO	29,254	25,880	14,580	11,400	3,274
DEVELOPMENT GRANTS	(9,340)	(8,330)	(8,330)		(1,010)
AGRICULTURE RURAL DEV & NUTRITION	5,240	5,240	5,240		
POPULATION PLANNING	1,735 a/	1,550 a/	1,550		185
HEALTH DEVELOPMENT ASSISTANCE	1,325	800	800		525
CHILD SURVIVAL FUND	1,000	700	700		300
PRIVATE SECTOR, ENVIRONMENT & ENERGY	40	40	40		
ECONOMIC SUPPORT FUND	19,914	17,690	6,250	11,400	2,264
NEPAL	12,393	12,000	5,890	6,190	393
DEVELOPMENT GRANTS	(12,393)	(12,000)	(5,890)	(6,190)	(393)
AGRICULTURE RURAL DEV & NUTRITION	8,000	8,000	5,290	2,790	
POPULATION PLANNING	1,500	1,500		1,900	
HEALTH DEVELOPMENT ASSISTANCE	1,300	1,300		1,300	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	1,200	1,200	600	600	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	393				393
OMAN	12,548				12,548
ECONOMIC SUPPORT FUND	12,548				12,548
PAKISTAN	275,011	129,011	49,811	79,200	146,000
DEVELOPMENT GRANTS	(46,000)	(46,000)	(11,100)	(34,900)	
AGRICULTURE RURAL DEV & NUTRITION	21,100	21,100	11,100	10,000	
POPULATION PLANNING	7,150	7,150		7,150	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	17,750	17,750		17,750	
ECONOMIC SUPPORT FUND	229,011	83,011	38,711	44,300	146,000

a/ Excludes for centrally procured commodities; $2,200 included in S & T's planning and allowance levels.

ESTIMATED AVAILABLE FUNDS BY COUNTRY

BUREAU FOR ASIA, NEAR EAST AND EUROPE

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

COUNTRY AND/OR PROGRAM	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
PHILIPPINES	335,770	102,938	50,088	52,850	232,832
DEVELOPMENT GRANTS	(52,438)	(51,938)	(33,088)	(18,850)	(500)
AGRICULTURE RURAL DEV & NUTRITION	20,818	20,318	10,488	9,830	500
POPULATION PLANNING	14,000	14,000	14,000		
HEALTH DEVELOPMENT ASSISTANCE	8,775	8,775	750	8,025	
CHILD SURVIVAL FUND	5,000	5,000	5,000		
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	2,870	2,870	2,850	20	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	975	975		975	
SPECIAL ASSISTANCE INITIATIVES	159,312	45,000	11,000	34,000	114,312
ECONOMIC SUPPORT FUND	124,020	6,000	6,000		118,020
POLAND	199,140	199,140	199,140		
ECONOMIC SUPPORT FUND	199,140	199,140	199,140		
PORTUGAL	40,002	40,002	39,402	600	
ECONOMIC SUPPORT FUND	40,002	40,002	39,402	600	
SOUTH PACIFIC REGION	16,253	5,050	1,531	3,519	11,203
DEVELOPMENT GRANTS	(6,252)	(5,050)	(1,531)	(3,519)	(1,202)
AGRICULTURE RURAL DEV & NUTRITION	4,134	3,555	200	3,355	579
POPULATION PLANNING	252				252
HEALTH DEVELOPMENT ASSISTANCE	1,236	900	900		336
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	440	440	381	59	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	190	155	50	105	35
ECONOMIC SUPPORT FUND	10,001				10,001
SRI LANKA	18,000	18,000	2,000	16,000	
DEVELOPMENT GRANTS	(18,000)	(18,000)	(2,000)	(16,000)	
AGRICULTURE RURAL DEV & NUTRITION	13,750	13,750	2,000	11,750	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	4,250	4,250		4,250	

ESTIMATED AVAILABLE FUNDS BY COUNTRY

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

BUREAU FOR ASIA, NEAR EAST AND EUROPE

COUNTRY AND/OR PROGRAM	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
THAILAND	12,539	7,800		7,800	4,739
DEVELOPMENT GRANTS	(10,000)	(7,800)		(7,800)	(2,200)
AGRICULTURE RURAL DEV & NUTRITION	7,450	5,450		5,450	2,000
HEALTH DEVELOPMENT ASSISTANCE	400	200		200	200
PRIVATE SECTOR, ENVIRONMENT & ENERGY	2,150	2,150		2,150	
ECONOMIC SUPPORT FUND	2,539				2,539
TUNISIA	12,486	11,178	11,178	0	1,308
DEVELOPMENT GRANTS	(40)	(40)	(40)		
PRIVATE SECTOR, ENVIRONMENT & ENERGY	40	40	40		
ECONOMIC SUPPORT FUND	12,446	11,138	11,138	0	1,308
TURKEY	14,263	14,263	14,263		
ECONOMIC SUPPORT FUND	14,263	14,263	14,263		
WEST BANK GAZA	13,089	11,946	1,003	10,946	1,117
ECONOMIC SUPPORT FUND	13,089	11,946	1,003	10,946	1,117
YEMEN ARAB REPUBLIC (SANAA)	21,087	21,087	20,202	885	
DEVELOPMENT GRANTS	(21,087)	(21,087)	(20,202)	(885)	
AGRICULTURE RURAL DEV & NUTRITION	13,300	13,300	12,480	820	
HEALTH DEVELOPMENT ASSISTANCE	67	67	52	15	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	7,700	7,700	7,700		
ASEAN	3,260	3,060	1,850	1,210	200
DEVELOPMENT GRANTS	(3,260)	(3,060)	(1,850)	(1,210)	(200)
AGRICULTURE RURAL DEV & NUTRITION	1,410	1,410	200	1,210	
HEALTH DEVELOPMENT ASSISTANCE	850	850	850		
PRIVATE SECTOR, ENVIRONMENT & ENERGY	1,000	800	800		200
ASIA/NEAR EAST REGIONAL	38,394	28,065	10,422	15,643	12,329
DEVELOPMENT GRANTS	(26,445)	(17,979)	(8,707)	(9,271)	(8,467)
AGRICULTURE RURAL DEV & NUTRITION	7,600	5,654	2,052	3,602	1,948
POPULATION PLANNING	3,173	2,775	1,461	1,315	397
HEALTH DEVELOPMENT ASSISTANCE	3,405	1,040	188	852	2,365
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	5,375	4,256	3,494	761	1,019
PRIVATE SECTOR, ENVIRONMENT & ENERGY	6,893	4,153	1,513	2,640	2,740
ECONOMIC SUPPORT FUND	11,948	8,086	1,714	6,372	3,862

ESTIMATED AVAILABLE FUNDS BY COUNTRY

BUREAU FOR LATIN AMERICA & THE CARIBBEAN

AS OF MAY 31, 1980

(THOUSANDS OF DOLLARS)

COUNTRY AND/OR PROGRAM	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
BELIZE	6,453	6,453	2,821	3,632	
DEVELOPMENT GRANTS	(6,453)	(6,453)	(2,821)	(3,632)	
AGRICULTURE RURAL DEV & NUTRITION	3,596	3,596	1,324	2,274	
HEALTH DEVELOPMENT ASSISTANCE	737	737	190	547	
CHILD SURVIVAL FUND	856	856	700	156	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	407	407	369	38	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	855	856	238	617	
BOLIVIA	54,388	52,800	38,983	13,817	1,588
DEVELOPMENT GRANTS	(20,975)	(20,925)	(7,108)	(13,817)	(50)
AGRICULTURE RURAL DEV & NUTRITION	9,081	9,081	2,591	6,490	
POPULATION PLANNING	1,275	1,325	1	1,324	50
HEALTH DEVELOPMENT ASSISTANCE	1,355	1,355	965	390	
CHILD SURVIVAL FUND	4,036	4,036	2,367	1,669	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	1,954	1,954	278	1,675	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	3,174	3,174	906	2,268	
ECONOMIC SUPPORT FUND	33,413	31,875	31,875		1,538
COLOMBIA	2,133	2,133	157	1,976	
ECONOMIC SUPPORT FUND	2,133	2,133	157	1,976	
COSTA RICA	75,227 a/	75,227 a/	71,154	4,072	
DEVELOPMENT GRANTS	(11,683)	(11,683)	(7,611)	(4,072)	
AGRICULTURE RURAL DEV & NUTRITION	8,708	8,708	4,738	3,970	
HEALTH DEVELOPMENT ASSISTANCE	500	500	500		
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	25	25		25	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	2,450	2,450	2,373	77	
ECONOMIC SUPPORT FUND	63,544	63,544	63,544		
DOMINICAN REPUBLIC	14,485	14,485	10,166	4,319	
DEVELOPMENT GRANTS	(14,485)	(14,485)	(10,166)	(4,319)	
AGRICULTURE RURAL DEV & NUTRITION	4,975	4,975	4,566	409	
POPULATION PLANNING	500	500	2	498	
HEALTH DEVELOPMENT ASSISTANCE	1,183	1,183	1,068	115	
INTERNATIONAL AIDS PREVENTION & CONTROL	600	600	600	0	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	2,930	2,930	1,317	1,613	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	4,297	4,297	2,613	1,684	

a/ Excludes for centrally procured commodities:
$1,800 included in S & T's FSN planning and
and allowed levels.

ESTIMATED AVAILABLE FUNDS BY COUNTRY

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

BUREAU FOR LATIN AMERICA & THE CARIBBEAN

COUNTRY AND/OR PROGRAM	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
ECUADOR	14,091	14,005	8,252	5,753	86
DEVELOPMENT GRANTS	(14,091)	(14,005)	(8,252)	(5,753)	(86)
AGRICULTURE RURAL DEV & NUTRITION	3,768	3,768	1,369	2,399	
POPULATION PLANNING	1,600	1,514	800	714	86
HEALTH DEVELOPMENT ASSISTANCE	1,809	1,809	1,643	166	
CHILD SURVIVAL FUND	3,138	3,138	3,138		
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	2,300	2,300	804	1,496	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	1,476	1,476	498	978	
EL SALVADOR	203,174	176,063	28,896	148,188	27,121
DEVELOPMENT GRANTS	(58,818)	(58,818)	(11,110)	(47,708)	
AGRICULTURE RURAL DEV & NUTRITION	26,963	26,963	9,715	17,248	
POPULATION PLANNING	4,400	4,400		4,400	
HEALTH DEVELOPMENT ASSISTANCE	11,586	11,586	528	11,058	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	7,877	7,877	67	7,810	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	7,992	7,992	900	7,092	
ECONOMIC SUPPORT FUND	144,356	117,239	18,786	98,460	27,121
GUATEMALA	86,580	32,697	20,117	12,580	53,883
DEVELOPMENT GRANTS	(30,097)	(30,097)	(19,517)	(10,580)	
AGRICULTURE RURAL DEV & NUTRITION	15,105	15,105	6,826	8,279	
POPULATION PLANNING	3,587	3,587	3,160	427	
HEALTH DEVELOPMENT ASSISTANCE	281	281	200	81	
CHILD SURVIVAL FUND	2,282	2,282	2,200	82	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	5,557	5,557	5,335	222	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	3,285	3,285	1,796	1,489	
ECONOMIC SUPPORT FUND	56,483	2,600	600	2,000	53,883
GUYANA	996	996	996		
ECONOMIC SUPPORT FUND	996	996	996		

ESTIMATED AVAILABLE FUNDS BY COUNTRY

BUREAU FOR LATIN AMERICA & THE CARIBBIAN

AS OF MAY 31, 1980

(THOUSANDS OF DOLLARS)

COUNTRY AND/OR PROGRAM	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
HAITI	27,478	27,478	17,117	10,361	
DEVELOPMENT GRANTS	(27,478)	(27,478)	(17,117)	(10,361)	
AGRICULTURE RURAL DEV & NUTRITION	9,216	9,216	7,884	1,332	
POPULATION PLANNING	3,350	3,350	1,209	2,141	
HEALTH DEVELOPMENT ASSISTANCE	4,900	4,900	1,710	3,190	
INTERNATIONAL AIDS PREVENTION & CONTROL	700	700	700		
CHILD SURVIVAL FUND	3,899	3,899	2,639	1,260	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	1,954	1,954	1,466	488	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	3,459	3,459	1,520	1,939	
HONDURAS	165,887	164,771	155,698	9,872	1,217
DEVELOPMENT GRANTS	(34,171)	(34,171)	(28,398)	(5,773)	
AGRICULTURE RURAL DEV & NUTRITION	16,637	16,637	13,121	3,516	
POPULATION PLANNING	4,700	4,700	3,916	784	
HEALTH DEVELOPMENT ASSISTANCE	3,064	3,064	3,006	58	
CHILD SURVIVAL FUND	2,300	2,300	2,300		
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	5,128	5,128	4,409	719	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	2,342	2,342	1,646	694	
ECONOMIC SUPPORT FUND	130,017	128,800	128,800		1,217
CENTRAL AM. RECONCILIATION ASSIST.	1,800	1,800	1,700	100	
JAMAICA	18,628	18,628	7,676	10,952	
DEVELOPMENT GRANTS	(13,650)	(13,650)	(7,676)	(5,974)	
AGRICULTURE RURAL DEV & NUTRITION	7,106	7,106	4,150	2,956	
POPULATION PLANNING	339	339		339	
HEALTH DEVELOPMENT ASSISTANCE	645	645	645		
INTERNATIONAL AIDS PREVENTION & CONTROL	300	300	300		
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	2,035	2,035	1,053	982	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	3,225	3,225	1,528	1,697	
ECONOMIC SUPPORT FUND	4,978	4,978		4,978	
NICARAGUA	88,083	83,683	64,383	19,300	1,400
DEVELOPMENT GRANTS	(1,400)				(1,400)
PRIVATE SECTOR, ENVIRONMENT & ENERGY	1,400				1,400
ECONOMIC SUPPORT FUND	79,683	79,683	60,383	19,300	
CENTRAL AM. RECONCILIATION ASSIST.	4,000	4,000	4,000		

a/ Excludes for centrally procured commodities;
$362 included in S & T's planning and
allowed levels.

ESTIMATED AVAILABLE FUNDS BY COUNTRY

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

BUREAU FOR LATIN AMERICA & THE CARIBBEAN

COUNTRY AND/OR PROGRAM	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
PANAMA	25,125	25,125	25,125		
ECONOMIC SUPPORT FUND	25,125	25,125	25,125		
PERU	15,286	13,997	2,093	11,904	1,289
DEVELOPMENT GRANTS	(12,000)	(12,000)	(2,010)	(9,990)	
AGRICULTURE RURAL DEV & NUTRITION	2,162	2,162	695	1,467	
POPULATION PLANNING	2,487	2,487	0	2,487	
HEALTH DEVELOPMENT ASSISTANCE	276	276	77	199	
INTERNATIONAL AIDS PREVENTION & CONTROL	100	100	100		
CHILD SURVIVAL FUND	4,083	4,083	629	3,454	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	2,208	2,208	450	1,758	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	674	674	49	625	
ECONOMIC SUPPORT FUND	3,286	1,997	83	1,914	1,289
ROCAP	21,326	21,326	2,110	19,216	
DEVELOPMENT GRANTS	(21,326)	(21,326)	(2,110)	(19,216)	
AGRICULTURE RURAL DEV & NUTRITION	13,099	13,099	1,087	12,012	
HEALTH DEVELOPMENT ASSISTANCE	632	632	160	472	
CHILD SURVIVAL FUND	18	18	18	0	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	407	407	39	368	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	7,170	7,170	807	6,363	
EAST CARIBBEAN REGIONAL	19,635	19,635	12,833	6,802	
DEVELOPMENT GRANTS	(19,635)	(19,635)	(12,833)	(6,802)	
AGRICULTURE RURAL DEV & NUTRITION	7,934	7,934	6,694	1,240	
POPULATION PLANNING	1,126	1,126	374	752	
HEALTH DEVELOPMENT ASSISTANCE	1,161	1,161	442	719	
INTERNATIONAL AIDS PREVENTION & CONTROL	800	800	500	300	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	5,387	5,387	2,400	2,987	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	3,227	3,227	2,423	804	

ESTIMATED AVAILABLE FUNDS BY COUNTRY

BUREAU FOR LATIN AMERICA & THE CARIBBEAN

AS OF MAY 31, 1980

(THOUSANDS OF DOLLARS)

COUNTRY AND/OR PROGRAM	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
CENTRAL LA REGIONAL	3,747	3,742	2,014	1,728	5
DEVELOPMENT GRANTS	(2,872)	(2,872)	(1,344)	(1,528)	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	1,628	1,628		1,628	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	1,344	1,344	1,344		
ECONOMIC SUPPORT FUND	775	770	670	100	5
LA REGIONAL	71,278	61,535	6,815	54,621	9,743
DEVELOPMENT GRANTS	(61,604)	(52,550)	(4,249)	(48,301)	(9,055)
AGRICULTURE RURAL DEV & NUTRITION	9,627	4,846	83	4,763	4,781
POPULATION PLANNING	2,508	1,420	183	1,237	1,088
HEALTH DEVELOPMENT ASSISTANCE	3,432	3,342	15	3,327	90
INTERNATIONAL AIDS PREVENTION & CONTROL	726	584		584	142
CHILD SURVIVAL FUND	3,408	3,408		3,408	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	29,882	28,720	1,075	28,645	162
PRIVATE SECTOR, ENVIRONMENT & ENERGY	12,027	9,233	2,893	6,340	2,794
ECONOMIC SUPPORT FUND	9,674	8,986	2,666	6,320	688

ESTIMATED AVAILABLE FUNDS BY PROGRAM

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

BUREAU FOR SCIENCE AND TECHNOLOGY

OFFICE AND/OR COUNTRY	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
OFFICE OF THE SCIENCE ADVISOR	11,084	10,279	830	9,448	805
DEVELOPMENT GRANTS	(11,084)	(10,279)	(830)	(9,448)	(805)
PRIVATE SECTOR, ENVIRONMENT & ENERGY	11,084	10,279	830	9,448	805
BUREAU FOR SCIENCE AND TECHNOLOGY	348,667	347,097	137,109	209,988	1,570
DEVELOPMENT GRANTS	(345,639)	(344,396)	(137,109)	(207,287)	(1,473)
AGRICULTURE RURAL DEV & NUTRITION	114,972	114,972	53,742	61,230	
POPULATION PLANNING	132,134	130,848	31,265	99,583	1,286
HEALTH DEVELOPMENT ASSISTANCE	32,379	32,379	12,589	19,790	
INTERNATIONAL AIDS PREVENTION & CONTROL	33,693	33,693	28,709	4,984	
CHILD SURVIVAL FUND	20,588	20,401	6,473	13,928	187
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	4,957	4,957	3,194	1,763	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	7,117	7,117	1,136	5,981	
SUB-SAHARAN AFRICA DEV. ASST.	2,828	2,731		2,731	97

ESTIMATED AVAILABLE FUNDS BY PROGRAM

BUREAU FOR FOOD FOR PEACE AND VOL. ASSIST.

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

OFFICE AND/OR COUNTRY	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
DEVELOPMENT EDUCATION-HIDEN-FELL	2,712	2,712	411	2,301	
DEVELOPMENT GRANTS	(2,712)	(2,712)	(411)	(2,301)	
AGRICULTURE RURAL DEV & NUTRITION	2,712	2,712	411	2,301	
OFFICE OF PROGRAM, POLICY, & MANAGEMENT	440	440	143	297	
DEVELOPMENT GRANTS	(440)	(440)	(143)	(297)	
AGRICULTURE RURAL DEV & NUTRITION	69	69	41	28	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	371	371	102	269	
OFFICE OF PRIVATE AND VOLUNTARY COOPERATION	55,546	55,546	14,108	41,438	
DEVELOPMENT GRANTS	(54,676)	(54,676)	(14,108)	(40,568)	
AGRICULTURE RURAL DEV & NUTRITION	25,657	25,657	6,994	18,663	
HEALTH DEVELOPMENT ASSISTANCE	6,304	6,304	1,868	4,435	
CHILD SURVIVAL FUND	12,731	12,731	108	12,623	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	4,067	4,067	1,977	2,090	
PRIVATE SECTOR, ENVIRONMENT & ENERGY	5,917	5,917	3,161	2,756	
SUB-SAHARAN AFRICA DEV. ASST.	870	870		870	
OFFICE OF FOOD FOR PEACE	556	556	124	432	
DEVELOPMENT GRANTS	(556)	(556)	(124)	(432)	
AGRICULTURE RURAL DEV & NUTRITION	556	556	124	432	
OFFICE OF AMERICAN SCHOOLS AND HOSPITALS ABROAD	34,850	34,850	26	34,823	
AMERICAN SCHOOLS AND HOSPITALS ABROAD	34,850	34,850	26	34,823	

ESTIMATED AVAILABLE FUNDS BY PROGRAM

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

INTERNATIONAL ORGANIZATIONS AND PROGRAMS

OFFICE AND/OR COUNTRY	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
INTERNATIONAL ORGANIZATIONS AND PROGRAMS	239.699	239.699	233.221	6.478	
UN DEVELOPMENT PROGRAM (UNDP)	107.752	107.752	104.265	3.487	
UN CHILDREN'S FUND (UNICEF)	64.350	64.350	64.350		
OAS ASSISTANCE PROGRAMS	9.839	9.839	9.486	353	
INT'L ATOMIC ENERGY AGENCY (IAEA)/STATE	20.613	20.613	20.613		
UN ENVIRONMENTAL PROGRAM (UNEP)	11.807	11.807	11.807		
UN CAPITAL DEVELOPMENT FUND (UNCDF)	1.476	1.476	1.476		
UN INSTITUTE FOR NAMIBIA (UNIN)	107	107	107		
UN ED. & TRAIN. PROG. FOR S. AFRICA(UNETPSA)	788	788	788		
UN TRUST FUND FOR SOUTH AFRICA (UNTFSA)	492	492	492		
WORLD FOOD PROGRAM (WFP)	964	964	964		
WORLD METEOROLOGICAL ORG VOLUN.COOP.PROG.(WMO/VCP)	1,968	1,968	1,968		
CONV. ON INTL. TRADE IN ENDANGERED SPECIES(CITES)	738	738	738		
UN VOLUNTARY FUND-DECADE FOR WOMEN(UNIFEM)	787	787	787		
UN FELLOWSHIP PROGRAM (UNFP)	241	241		241	
INT'L ATOMIC ENERGY AGENCY (IAEA)DOE	1,033	1,033		1,033	
WORLD HERITAGE FUND (WHF)	216	216	216		
U.N. VOL. FUND	98	98	98		
I. C. S. U. C.	1,967	1,967	1,172	796	
U N CENTER ON HUMAN SETTLEMENTS (HABITAT)	393	393	393		
UNIDO INVESTMENT PROMOTION SERVICE	492	492	18	474	
INSTITUTE FOR THE ADVANCEMENT OF WOMEN (INSTRAW)	197	197	197		
INTERGOVERNMENTAL PANEL ON CLIMATE CHANGE	98	98	3	95	
UN AFGHANISTAN EMERGENCY TRUST FUND (UNAFTF)	13,283	13,283	13,283		
PEACEKEEPING OPERATIONS	32.773	32.773	31.637	1,136	
MULTINATIONAL FORCE & OBSERVERS	23.936	23.936	23.728	208	
UN FORCES IN CYPRUS	8.837	8.837	7.909	928	

OTHER PROGRAMS

ESTIMATED AVAILABLE FUNDS BY PROGRAM

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

OFFICE AND/OR COUNTRY	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
BUREAU FOR PROGRAM & POLICY COORDINATION	20,940	11,121	8,713	2,408	9,819
DEVELOPMENT GRANTS	(20,940)	(11,121)	(8,713)	(2,408)	(9,819)
AGRICULTURE RURAL DEV & NUTRITION	7,144	2,685	1,623	1,061	4,460
POPULATION PLANNING	2,544	1,095	634	461	1,449
HEALTH DEVELOPMENT ASSISTANCE	1,782	783	281	502	999
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	1,947	500	345	155	1,447
PRIVATE SECTOR, ENVIRONMENT & ENERGY	7,523	6,059	5,829	230	1,464
BUREAU FOR PRIVATE ENTERPRISE	21,211	16,035	6,550	9,486	5,176
DEVELOPMENT GRANTS	(17,726)	(16,035)	(6,550)	(9,485)	(1,691)
AGRICULTURE RURAL DEV & NUTRITION	6,304	5,435	2,578	2,857	969
HEALTH DEVELOPMENT ASSISTANCE	2,545	1,734	281	1,453	811
PRIVATE SECTOR, ENVIRONMENT & ENERGY	8,877	8,866	3,691	5,176	11
PRIVATE SECTOR REVOLVING FUND	3,485				3,485
OFFICE OF FOREIGN DISASTER ASSISTANCE	38,071	35,534	24,413	11,121	3,537
DEVELOPMENT GRANTS	(10,298)	(9,913)	(2,478)	(7,434)	(386)
AGRICULTURE RURAL DEV & NUTRITION	4,392	4,320	2,478	1,842	72
POPULATION PLANNING	729	729		729	
HEALTH DEVELOPMENT ASSISTANCE	1,904	1,791		1,791	113
PRIVATE SECTOR, ENVIRONMENT & ENERGY	3,273	3,073		3,073	200
INTERNATIONAL DISASTER ASSISTANCE	23,773	20,621	16,935	3,687	3,151
ECONOMIC SUPPORT FUND	5,000	5,000	5,000		
OFFICE OF INTERNATIONAL TRAINING	2,000	2,000	999	1,001	
DEVELOPMENT GRANTS	(2,000)	(2,000)	(999)	(1,001)	
EDUCATION AND HUMAN RESOURCES DEVELOPMENT	2,000	2,000	999	1,001	
HUMANITARIAN TASK FORCE	31,425	31,425	30,812	613	
CENTRAL AM. RECONCILIATION ASSIST.	31,425	31,425	30,812	613	

ESTIMATED AVAILABLE FUNDS BY PROGRAM

AS OF MAY 31, 1990

(THOUSANDS OF DOLLARS)

OTHER PROGRAMS

OFFICE AND/OR COUNTRY	PROGRAMMED OYB	BUDGET ALLOWANCE ISSUED	OBLIGATIONS	AVAILABLE BALANCES UNOBLIGATED ALLOWANCE	AVAILABLE BALANCES UNALLOWED OYB
TRADE & DEVELOPMENT PROGRAM	28,518	27,528	10,241	17,287	1,991
TRADE AND DEVELOPMENT PROGRAM - GRANT	27,000	25,000	8,980	16,710	1,991
TRADE AND DEVELOPMENT PROGRAM - LOAN	192	192		192	
TRADE AND DEVELOPMENT PROGRAM - ADMINISTRATIVE	1,326	1,326	1,261	377	
OFFICE OF THE INSPECTOR GENERAL	30,329	22,651	17,860	4,791	7,678
OPERATING EXPENSES OF AID	397,583	327,175	279,727	51,448	70,408
FOREIGN SERVICE RETIREMENT & DISABILITY FUND	40,147	40,147	40,147		

26-161 O—90——27

SENATOR LEAHY: General Beckington, when did you first begin reporting serious difficulties with the FACS? What was the response of A.I.D. management to your reports?

GENERAL BECKINGTON: My office over the last few years has made several audits in the A.I.D. Washington financial management area. These audits included reviews of individual elements of the FACS system such as unliquidated obligations, adherence to the Prompt Payment Act and cash advances. Agency management did in most instances respond positively to individual recommendations in these audit reports. However, based on the many problems identified in these audits, my Washington office initiated in early calendar year 1989 an audit of the FACS system. During the first few weeks of this audit, we found such serious control weaknesses in the FACS system that instead of continuing with the audit, I, on July 26, 1989, issued an audit survey report to the Acting Administrator of A.I.D. advising him that FACS was a seriously deficient system that was not providing accurate accounting control of Agency financial resources. The Acting Administrator of A.I.D. shortly thereafter made a decision to discontinue FACS and look for a viable alternative.

SENATOR LEAHY: What is your assessment of A.I.D.'s current capabilities to obtain accurate, timely and integrated fiscal data? How serious are the risks of undetected financial irregularities, such as diversions, embezzlement, waste or fraud?

GENERAL BECKINGTON: As stated in my survey audit report, the Agency is operating daily at severe risk of undetected financial irregularities, is at risk of making inaccurate and incomplete reports to the Congress and the Office of Management and Budget, and suffers from inadequate and untimely fiscal reporting. Further, FACS does not provide the underpinning of effective internal controls necessary for the Administrator to reasonably assure that the objectives of the Federal Managers' Financial Integrity Act have been met. A recent audit of payments made by the Agency from the Washington Comptroller's office underscores my concerns. It disclosed widespread deficiencies in the payment processes and repeated breakdowns in controls over cash payments. This report makes 27 recommendations for improving controls over the A.I.D. Washington direct payment processes.

SENATOR LEAHY: Are there any interim measures you could recommend to reduce the risks of theft, misuse, fraud or waste?

GENERAL BECKINGTON: Other than the recommendations made in our survey report on FACS and the numerous recommendations made in our audit report on A.I.D. Washington direct payments, I have no other specific measures to recommend. I am aware that the Comptroller has hired several contractors to make manual reviews of many payment transactions until automated controls can be implemented. I am also aware that the Agency is making a concerted effort to improve its financial management performance.

LOCAL CURRENCY

SENATOR LEAHY: Amb. Edelman, one of the management issues that has most worried this Subcommittee for years is the problem of local currency.

Our foreign aid programs generate hundreds of millions of dollars worth of local currency every year. This local currency is

to be deposited in special accounts and used only for mutually agreed development purposes.

Yet, repeatedly, the IG and the GAO have reported widespread abuse of the local currencies arising from our aid programs. For hundreds of millions of dollars, we do not know what happened to it, how it got used, whether some was stolen or went for government salaries, cars, houses, foreign bank accounts, or what. We just do not know because A.I.D. cannot or will not monitor local currency accounts.

Now, a central issue in this is who owns the local currency. I understand A.I.D. takes the position the local currency is owned by the host government, and therefore we have no rights to tract it to its end uses.

General Beckington, you argue, I understand, that inasmuch as these hundreds and hundreds of millions of dollars worth of local currency flow from appropriated U.S. dollars, we ought to maintain ownership--or at the very least, insist on guaranteed rights to audit the use of the money to ensure that it is used for agreed development purposes and not to buy guns or build villas, or pay for Mercedes cars.

First you, General Beckington. What problems do your auditors find with the control and monitoring of local currency? How serious are the risks of waste, fraud and abuse of local currency? What do you think needs to be done? Should we insist on retaining ownership?

GENERAL BECKINGTON: In my opening statement I noted that we find problems in almost every aspect of local currency management. Host governments fail to make deposits, if deposits are made they are sometimes years late, deposits are not made at the highest exchange rate available and agreed upon, and deposits are not used for agreed-upon purposes. A.I.D. operates with the understanding that host governments, not A.I.D., own local currencies accruing from our foreign aid programs. I believe it is very difficult if not impossible to control and account for the use of something you do not own. Without ownership we have little leverage to program these currencies for developmental purposes, account for the currencies, ensure deposits are made or control any aspect of the management of this resource. The solutions to these problems are not easy to discern. Corrective actions are necessary. We should not procrastinate as we have been doing. We should set out in an organized fashion to analyze the issues, identify potential solutions, pick the best alternative and go forward--with the support of Congress if needed. These local currencies are real money in the host countries and will buy services and needed commodities in support of the Agency's development missions. They are the direct result of our aid programs and should be used wisely and prudently.

SENATOR LEAHY: Now, Amb. Edelman, what is your position on local currency? Why shouldn't we own it, with full rights to monitor, track and audit its uses? If we are not to own it, how can we ensure its proper use?

AMB. EDELMAN: A.I.D. believes that we do not own these local currencies, nor should we. The General Accounting Office supports our position. In testimony to the House of Representatives, before the Committee on Foreign Affairs, Subcommittee on International Economic Policy and Trade, Harold Johnson, Director for Foreign Economic Assistance Issues, affirmed that "the local currencies

generated from Title I and Title II government-to-government food aid belong to the host governments. However, the question of who owns the local currency does not dictate whether it is properly used." Mr. Johnson further stated that "we do not support making these local currencies U.S.-owned. By continuing the present practice of host country ownership, we see significant opportunities to increase the level of administrative assistance in the area of host country financial management capabilities. We believe that A.I.D. can and should strengthen its oversight of the use of local currencies in ways that will help to improve the financial management capabilities of the host governments."

This is exactly A.I.D.'s approach. We are currently preparing supplementary guidance that clarifies A.I.D.'s responsibilities for tracking and auditing local currency that is jointly programmed to support discrete projects. This operational guidance will require missions to perform financial assessments of the host government units which administer local currency special accounts, to include in programming documents detailed information on how special accounts will be monitored and reported on, and to ensure that audits are performed on local currency special account activities.

Finally, we do not believe there has been widespread abuse of local currencies arising from A.I.D. programs. The use of local currency in the Agency has been the subject of many IG audits, and these have not identified widespread abuse. Further, a survey of missions conducted in 1989 on the subject of local currency revealed that most missions are monitoring deposits into and disbursements from the special accounts. However, the Agency does recognize the need to strengthen procedures for monitoring local currency in order to address specific weaknesses in our oversight.

COST SHARING

SENATOR LEAHY: Let's turn to the issue of cost sharing. In many A.I.D. projects, we agree with the host nation to provide the bulk of the funding while they contribute the remaining costs. This is to increase the host government commitment to carrying out the project and to maintain it after A.I.D. completes its work.

But the IG and the GAO are unanimous in charging that there is widespread noncompliance with cost sharing by host governments or participating private organizations. A.I.D. pays up front, but allows host governments to pay as they will.

As I read through the last five years of IG reports, example after example of failure to enforce cost sharing appears. It looks to me like this runs into the scores of millions annually.

General Beckington, how serious is the cost sharing problem? What is impact on the effectiveness of foreign aid? What solutions can you recommend to resolve this perennial problem?

GENERAL BECKINGTON: Audits of private voluntary organizations (PVO) and host governments around the world repeatedly find deficiencies in cost sharing and host government contributions. It is a serious problem. The Agency routinely asks its partners in development to share in the cost of a particular developmental effort for two basic reasons--sustainability after A.I.D. funding ceases and to demonstrate the host country's commitment to the particular aid program or project. We repeatedly find cases where A.I.D. provides its agreed-upon share but the non-A.I.D. share never materializes. A.I.D. then has to either pay the total costs of the effort, reduce the project goals or let the project die or

fade away when A.I.D. funding ceases. As I understand from my domestic agency counterparts, our domestic federal assistance programs have similar cost sharing provisions and it seems to work well. The reason is that the costs are shared as the project progresses and quarterly reconciliations of each party's actual contributions are required. If shortfalls in either party's share are identified, they must be corrected before future contribution is made by the other party. A.I.D. does not normally follow this approach in its payment process but pays its share without regard to host country performance. I believe A.I.D. should modify its reimbursement system to require cost sharing as the project progresses, require a quarterly reconciliation of actual contributions by all parties and require any shortfalls to be corrected before either party makes any further contributions.

SENATOR LEAHY: Amb. Edelman, what happens to a project when the participating government or organizations fails to contribute its share? Does A.I.D. pick up the shortfall, or let the project collapse? Have you ever one penalized a government by refusing to initiate new projects until it met its obligations under past projects?

AMB. EDELMAN: This issue has many dimensions and I would hesitate to generalize about nonpayment of shared project costs on the part of host governments or PVOs. Certainly, there are instances in which a host government is unable to fulfill its original cost sharing commitment -- not entirely surprising given the financial condition of the countries with which we work. In fact, concern over the potential burden represented by cost sharing and the possibility of nonpayment gave rise to the addition of a provision in the Foreign Assistance Act that the 25 percent cost sharing rule could be waived in the case of relatively least developed countries (RLDC).

If counterpart deposits are not timely, we have a number of tools at our disposal to ensure corrective action. We could postpone planned new projects, not agree to extend planned termination dates, revise originally planned project designs, hold up ESF disbursements or delay local currency programming. Any of these measures would generally prompt host country action. If the good will is there -- and it generally is -- we will make every effort to find a mutually acceptable solution to the problem, including extending the life of the project, renegotiating the host government's contribution and seeking other external (i.e., other donor) resources to compensate for the shortfall.

The suggestion that punitive actions could be undertaken on the part of the United States assumes willful withholding of cost sharing on the part of host government officials. I cannot think of a single instance in which a host government has clearly had the resources to fulfill its cost sharing agreements, but refused to do so because of an assumption that the project would continue on with or without their contribution. There are cases, such as in the Cameroon, Kenya and in one of our regional projects in the Caribbean, where cost sharing terms have had to be altered during the life of the project because of changes in the projected revenues of the host government(s).

In the case of the Cameroon, a period of fairly impressive economic growth was followed by a severe contraction in the economy in the late 1980s. In response, an economic restructuring plan was implemented and the portfolio of A.I.D. projects was reviewed and

adjusted due to the austerity measures being undertaken by the Cameroonian government. A number of projects were restructured or consolidated to relieve the recurrent cost burden to the government. In fact, the entire Country Development Strategy Statement (CDSS) was revamped, principally because of Cameroon's inability to assume the same level of cost sharing as had originally been envisioned.

Changed circumstances also led to an alteration in a Kenya rural development project. In 1979, Kenya believed it could finance almost $5.6 million of an $18 million project, but the worldwide recession of the mid-1980s created severe economic problems for Kenya and a structural adjustment program was undertaken. As a result, Kenya was unable to fund $1.5 million in project contract costs for vehicle operation and maintenance and funds for other recurrent and capital expenditures. The project was revised and refocused to relieve the Government of Kenya from some of its previously planned contributions, but not of its statutory requirement to finance 25 percent of the overall project costs.

One consideration which must be borne in mind is that A.I.D.'s authorizing legislation and, as a result, many project agreements, specifically allow for host government cost sharing to be in the form of in-kind contributions, i.e., supplying office space, personnel, logistical support. In-kind contributions can represent less of a potential burden for the host government and, therefore, has a higher chance of timely "payment." There are occasions where host countries run out of money and cannot meet their payrolls -- the Philippines in the 1970s is an example. These sorts of problems indicate a larger problem than nonpayment of U.S. cost sharing, however, and massive economic restructuring is oftentimes in order.

Another factor which has been known to create problems with cost sharing agreements is exchange rate changes, which alter the size of the host country share over the life of the project. India, for example, suffered from this phenomenon in the 1980s. To alleviate this problem, A.I.D. explicitly decided in 1987 to fix the host country contribution and insulate it from exchange rate fluctuations.

Finally, I would like to comment on the suggestion that in many projects A.I.D. pays up front, but allows host governments to pay as they will. Certainly, there are such cases and this could be expected in an activity where there are high front end foreign exchange costs which A.I.D. would finance and the longer term local costs, which the host government would fund. But this does not represent the typical project. Generally, funds flow on a regular, scheduled basis over the life of the project and may shift during the later half of the project to phase-out A.I.D.'s share and increase the host government's contribution, particularly when projects focus on the creation of new, self-sustaining institutions.

CENTRAL MANAGEMENT

SENATOR LEAHY: Many of the criticisms I have heard seem to be directed primarily at central management in Washington, the management "professionals" rather than the technical people in the field. One comment I saw was that A.I.D. has the weakest central management of any federal agency in Washington, with the possible exception of the State Department.

What is your reaction to that criticism? Do you agree or disagree that the most serious management problems in A.I.D. are concentrated here in Washington?

AMB. EDELMAN: We do have some management problems in Washington; but given our far flung and difficult scope of work, I would put A.I.D. well above many federal agencies.

A.I.D. was forced to cut its career staff by nearly 30 percent over the past decade and has had to rely increasingly on contractors and PVO organizations to get our work done. We decentralized our operations so field missions could perform their jobs under these increasingly difficult conditions. This led to a deterioration of A.I.D. Washington management controls and support systems.

We believe we have defined our problem areas in Washington, and will be able to overcome the major weaknesses in the next two or three years.

SENATOR LEAHY: Is there a professional management track in A.I.D. where career development officers can move up the management side of the Agency?

AMB. EDELMAN: We don't have a separate "management track" in the lower and middle ranks of A.I.D., except for a few staff who initially enter the Agency as "management" interns. A.I.D. develops most of its mid- and senior-level managers from the ranks of its "development" professionals, e.g., doctors, lawyers, economists, engineers, financial analysts, agriculturalists.

We look for candidates who have professional skills as well as management experience or instincts, with the expectation that many of them, through assignments and training, will become senior A.I.D. managers later in their careers. This employment, training, and assignment strategy gives A.I.D. management candidates with development insights and gives these "development" professionals opportunities to share in the administration and direction of the Agency.

SENATOR LEAHY: What kind of management training do your senior managers receive?

AMB. EDELMAN: Since the early 1980s, A.I.D. has made an intensive effort to develop the management skills of its supervisors and executives. At the beginning of this period we offered a number of external training opportunities, and an internal course on personnel rules and regulations (Supervisor's Role in Personnel Management). However in 1984, with a mandate from the Administrator's office, we initiated a one-week Management Skills Course for mid-level managers. About 1,000 Foreign Service (FS) and Civil Service (GS) managers, and 400 Foreign Service Nationals and personal services contractors, have taken this course.

In 1986 the Senior Management Course was introduced, again with top-level support. The course focused initially on Foreign Service executives (mission directors and deputies, deputy assistant administrators and office directors). Expanding recently to the Senior Executive Service (SES), Performance Management and Recognition System (PMRS), and top General Schedule (GS) ranks, 297 career managers and three political appointees have attended the two-week course. In 1988, the Supervisory Skills course was introduced followed in 1989 by complementary courses in Team-Building and Negotiation Skills.

Many of the courses have resulted in follow-up training, organizational strengthening efforts, and other applications of new management knowledge in the workplace. A Managers' Network has evolved in support of the efforts.

In addition, managers are frequently enrolled in internal courses to update their knowledge in such areas as project design; project implementation; financial management; contracting for non-procurement personnel; and development studies.

A.I.D. TOP MANAGEMENT POSITIONS

SENATOR LEAHY: Would you please provide the Subcommittee with the curriculum vitae of the persons who have held the top dozen management positions in the Agency over the last decade. It would be interesting to see how much management training and experience top managers have actually had.

AMB. EDELMAN: Listed below are the top dozen management officials in A.I.D., their respective titles and predecessors over the last ten years.

Ronald W. Roskens	Administrator (March 22, 1990 - Present)
Predecessors:	M. Alan Woods (November 1987 - June 1989), M. Peter McPherson (February 1981 - August 1987), and Douglas J. Bennet, Jr. (August 1979 - January 1981)
Mark L. Edelman	Deputy Administrator (June 23, 1989 - Present)
Predecessors:	Jay Fleron Morris (October 1982 - June 1989), Joseph C. Wheeler (March 1980 - September 1982)
R. Ray Randlett	Assistant Administrator for Legislative Affairs (October 12, 1989 - Present)
Predecessors:	Kelly C. Kammerer, Director (1982 - 1989), Dan Denning, Director (1982 - 1982), Michelle Laxalt, Director (1981 - 1982), Jack Murphy, Director (1981 - 1981) and Genta W. Hawkins, Assistant Administrator (1979 - 1981)
C. Anson Franklin	Assistant Administrator for External Affairs (April 9, 1990 - Present)
Predecessors:	James R. Kunder, Acting (September 1988 - April 1990), Thomas R. Blank (October 1986 to September 1988), Sarah Tinsley, Acting (September 1985 - October 1986), Cathryn Semerad (January 1984 - August 1985), Vacant (February - December 1983), Jay F. Morris (March 1981 - January 1983), Norman R. Sherman, Director, Office of Public Affairs (September 1980 - January 1981), and James W. McCulla, Director, Office of Public Affairs (May 1977 - June 1980)
Reginald Brown	Assistant Administrator for Program and Policy Coordination (November 6, 1989 - Present)
Predecessor:	Richard E. Bissell (October 1986 - October 1989), Richard A. Derham (October 1984 - February 1986), John R. Bolton (February 1982 - July 1983), and Alexander Shakow (May 1977 - April 1981)

Henrietta Holsman Fore	Assistant Administrator for Asia and Private Enterprise (April 9, 1990 - Present)
Predecessors:	Neal Peden (February 1984 - April 1990) and Elise R. W. duPont (July 1981 to February 1984). (The Bureau for Private Enterprise was established on July 28, 1981.)
Richard E. Bissell	Assistant Administrator for Science and Technology (April 9, 1990 - Present)
Predecessors:	Nyle C. Brady (1981 - September 1989) and Sander M. Levin (1978 - 1981). (The Bureau for Science and Technology was formed in 1981. Prior to that time the central research and field support functions of the Science and Technology Bureau were carried out by the Development Support Bureau.)
Philip L. Christensen	Assistant Administrator for Food for Peace and Voluntary Assistance (November 22, 1989 - Present)
Predecessors:	Philip L. Christensen (recess appointment December 1988) and Julia Change Bloch (1981 - 1987). (In 1981, the Bureau for Food for Peace and Voluntary Assistance was reorganized from the former Bureau of Private and Development Cooperation. Calvin H. Raullerson was the Assistant Administrator of the PDC Bureau from its establishment in 1978 to 1981.)
Walter G. Bollinger	Assistant Administrator for Africa, Acting (January 1989 - Present)
Predecessors:	Charles Gladson (September 1987 - January 1989), Mark L. Edelman (April 1984 - August 1987), Francis S. Ruddy (September 1981 - May 1983), Goler T. Butcher (June 1977 - January 1981)
Carol Adelman	Assistant Administrator for Europe and the Near East (October 19, 1988 - Present)
Predecessors:	Asia and Near East Bureau (established in 1985 by combining two bureaus): Julia Bloch (1987 - 1988) and Charles Greenleaf (1985 - 1987). Asia Bureau: Charles Greenleaf (1982 - 1985), John D. Holstein (1981 - 1982), and John S. Sullivan (1977 - 1981). Near East Bureau: Antoinette Ford (1982 - 1985), Alfred D. White, Acting (1980 - 1982, and Joseph L. Wheeler (1977 - 1980).
James H. Michel	Assistant Administrator for Latin America and the Caribbean (April 9, 1990 - Present)
Predecessors:	Frederick W. Schieck, Acting (December 1988 - April 1990), Dwight A. Ink (October 1985 - December 1988), Malcolm Butler, Acting (June 1985 - October 1985), Victor M.

Rivera (August 1984 - June 1985), Marshall D. Brown, Acting (July 1983 - August 1984), Otto J. Reich (May 1982 - July 1983), and Edward W. Coy, Acting (September 1979 - April 1982)

Howard M. Fry — General Counsel (November 1983 - Present)
Predecessors: Richard A. Derham (May - August 1983), Chandler L. vanOrman (May 1982 - March 1983), John R. Bolton (March 1981 - February 1982), and Norman L. Holmes (October 1979 - February 1981)

Attached for your review are the curriculum vitae of each of the current top management officials. Official personnel records of previous employees are not available in A.I.D.'s records. These records are transferred to the Federal Records Center upon termination of federal employment or are transferred to the gaining agency in the case of continuing federal employment.

I have also attached biographical information on the senior officials occupying the three key A.I.D. management positions: Alexander R. Love, Assistant to the Administrator for Personnel and Financial Management; Michael Doyle, Assistant to the Administrator for Management Services; and Michael G. Usnick, Controller, Chief Financial Officer, and Director, Office of Financial Management.

RONALD W. ROSKENS

03/90 - Present	Administrator, Agency for International Development, Washington, D.C.
08/89 - 03/90	President Emeritus and Professor of Higher Education; University of Nebraska, Lincoln, Nebraska
01/77 - 07/89	President and Professor of Educational Administration; University of Nebraska System, Lincoln, Nebraska
07/72 - 12/76	Chancellor and Professor of Educational Administration; University of Nebraska at Omaha, Omaha, Nebraska
1971 - 1972	Executive Vice President; Kent State University, Kent, Ohio
1966 - 1971	Vice President for Administration and Senior Vice President; Kent State University, Kent, Ohio
1959 - 1966	Dean of Administration and Assistant to the President; Kent State University, Kent, Ohio
1955 - 1959	Assistant Counselor to Men; University of Iowa, Iowa City, Iowa
1954 - 1955	Teacher, High School, Social Studies and Speech; Minburn, Iowa

Education

University of Northern Iowa, 1950 - 1953, B.A.
University of Northern Iowa, 1954 - 1955, M.A.
University of Iowa, 1955 - 1958, Ph.D.

Personal Data

Born:	December 11, 1932, Spencer, Iowa
Marital Status:	Married to Lois Lister, 4 children
Address:	5930 Norman Road, Lincoln, Nebraska 68512

MARK L. EDELMAN

EXPERIENCE

June 1989 - Present Deputy Administrator, Agency for International Development, Washington, D.C.

1987 - 1989 Ambassador to the Republic of Cameroon

1984 - 1987 Assistant Administrator, Bureau for Africa, Agency for International Development, Washington, D.C.

1983 - 1984 Senior Advisor to the Administrator and Executive Secretary, Agency for International Development, Washington, D.C.

1981 - 1983 Deputy Assistant Secretary, Bureau of International Organization Affairs, Department of State, Washington, D.C.

1981 Program Analyst, Agency for International Development, Washington, D.C.

1977 - 1981 Legislative Assistant to Senator John C. Danforth, Washington, D.C.

1975 - 1976 Deputy Commissioner of Administration, Office of Administration, Jefferson City, Missouri

1973 - 1976 State Budget Director, Jefferson City, Missouri

1972 Gubernatorial campaign staff of Christopher C. Bond, St. Louis and Jefferson City, Missouri

1968 - 1972 Budget Examiner, Bureau of the Budget/Office of Management and Budget, Washinyton, D.C.

1968 Cost Analyst, Planning Research Corporation, Washington, D.C.

1965 - 1967 Management Intern and Africa Budget Analyst, United States Information Agency, Washington, D.C.

EDUCATION

1961 - 1965 B.A. (History), Oberlin College, Oberlin, Ohio

1965 - 1966 Graduate work in public administration, The George Washington University, Washington, D.C.

PERSONAL DATA

Born: June 27, 1943, St. Louis, Missouri
Marital Status: Married, no children
Address: 4319 Argyle Terrace, N.W.
Washington, D.C. 20011

R. RAY RANDLETT

EXPERIENCE

10/89 - Present	Assistant Administrator for Legislative Affairs, Agency for International Development, Washington, D.C.
5/89 - 10/89	Consultant, Agency for International Development, Washington, D.C.
1/85 - 1/89	Director, Public Policy Issues, Allied Signal Inc., Morristown, New Jersey
6/77 - 12/84	Director of Legislative and Regulatory Affairs, Allied Signal Inc., Washington, D.C. (formerly Allied Chemical Corp.)
7/73 - 3/77	Congressional Liaison Officer, U.S. Department of Labor, Washington, D.C.
6/71 - 7/73	Washington Representative, PPG Industries, Washington, D.C.
8/68 - 4/71	U.S. Army, discharged 1st Lieutenant Infantry, Vietnam Veteran
9/66 - 6/68	(in law school) Staff Assistant to U.S. Representative James Battin, Washington, D.C.

EDUCATION

Hershey Junior College, 9/62 - 6/64, AA
American University, 9/64 - 6/66, BA
American University, 9/65 - 6/68, JD

HONORS AND AWARDS

Scholarship, Milton Hershey School, Hershey, Pennsylvania

PTK Junior College Honors Fraternity, Chapter President

PERSONAL DATA

Born: May 8, 1944, Pittsburg, Pennsylvania
Marital Status: Married to Catherine Cargan, no children
Address: 2828 Wisconsin Avenue, N.W., #511
Washington, D.C. 20007

C. Anson Franklin

Employment

4/90 - Present	Assistant Administrator for External Affairs, Agency for International Development, Washington, D.C.
11/89 - 4/90	Special Assistant, Bureau for External Affairs, Agency for International Development, Washington, D.C.
3/88 - 10/89	Assistant Secretary (Congressional, Intergovernmental and Public Affairs), U.S. Department of Energy, Washington, D.C.
12/86 - 3/88	Principal Deputy Assistant Secretary (Congressional, Intergovernmental and Public Affairs), U.S. Department of Energy, Washington, D.C.
3/85 - 12/86	Director of Communications, U.S. Department of Energy, Washington, D.C.
4/82 - 3/85	Assistant Press Secretary, The White House, Washington, D.C.
1/81 - 11/81	Campaign Manager, Coleman for Governor, Richmond, Virginia
1/78 - 1/81	Director of Administration, Attorney General of Virginia, Richmond, Virginia
2/77 - 12/77	Campaign Manager, Coleman for Attorney General, Richmond, Virginia
1/76 - 11/76	Campaign Manager, Steelman for Senate, Dallas, Texas
3/74 - 12/75	District Representative, Congressman Alan Steelman, Dallas, Texas
1/74 - 2/74	Writer, ACTION, Washington, D.C.
5/73 - 12/73	Consultant, Office of the Special Assistant to the Secretary, Department of Housing and Urban Development, Washington, D.C.
8/72 - 11/72	Director of Telephone Canvass, Texas Committee to Re-elect the President, Austin, Texas
1/71 - 7/72	Press Secretary to Congressman Bill Archer, Washington, D.C.
5/70 - 11/70	Assistant Press Secretary, Bush for Senate, Houston, Texas
6/69 - 11/69	Press Aide, Obenshain for Attorney General, Richmond, Virginia

EDUCATION University of Virginia, Charlottesville, Virginia, B.A. in Foreign Affairs, 1969

PERSONAL DATA Born April 17, 1947, in Richmond, Virginia
Military: Army National Guard, 1969-75
Married, two children

REGINALD J. BROWN

Experience

11/89 - Present	Assistant Administrator for Program and Policy Coordination, Agency for International Development, Washington, D.C.
9/89 - 11/89	Consultant, Agency for International Development, Washington, D.C.
10/82 - 8/89	Senior Fellow, Center for Strategic and International Studies (CSIS), Washington, D.C.
11/81 - 9/82	Self-employed aviation and management consultant, Miami Beach, Florida
8/79 - 9/82	Executive Vice President (highest position held), DECA Group, an aircraft modification center, Miami, Florida (concurrent with 11/81 to 9/82 position, above)
1/79 - 7/79	Division Chief, Council on Wage and Price Stability, Executive Office of the President, Washington, D.C.
5/78 - 12/78	Self-employed consultant, Potomac, Maryland. Clients included the Office of Technology Assessment of the U.S. Congress.
10/77 - 4/78	Executive Director, The President's Commission on Military Compensation, Department of Defense, Washington, D.C.
12/75 to 9/77	Principal Analyst for Natural Resources, Congressional Budget Office, Washington, D.C.
12/74 to 11/75	Associate Director for Economic Analysis, Defense Manpower Commission, Department of Defense, Washington, D.C.
7/74 to 12/74	Principal Staff Analyst for Natural Resources, The MITRE Corporation, McLean, Virginia.
8/73 to 7/74	Deputy Administrator, Office of Food; Cost of Living Council; Executive Offices of the President, Washington, D.C.
10/72 to 8/73	Director of Administration, The MITRE Corporation, McLean, Virginia.
10/71 to 10/72	Assistant Vice President for Management, The Urban Institute, Washington, D.C.
6/61 to 10/71	Major of Infantry, United States Army.

Education

U.S. Military Academy, West Point, New York, 7/57 - 6/61, B.S. 1961.

John F. Kennedy School of Government, Harvard University, 7/64 to 6/66, M.P.A., 1965; Additional Ph.D.-level course work in economics, 1966.

U.S. Army Basic Infantry Officer's Course, Airborne School, Ranger School, 7/61 - 1/62; Defense Language Institute

(Vietnamese language), 1963; Advanced Infantry Officer's Course, 1967; Defense Management School, 1968.

Languages

French and Vietnamese

Honors and Awards

Competitive appointment to the U.S. Military Academy. Cadet Officer. Debate Society President. Meritorious Service Medal. Bronze Star. Army Commendation Medal (3 awards). Vietnam Campaign Ribbon. CSIS Senior Fellow. Secretary, Council of 100.

Personal Data

Born:	February 12, 1940, New Orleans, Louisiana
Marital Status:	Married to Emilia Lowe Chong, two children
Current Address:	2707 Franklin Court, Alexandria, VA 22302

HENRIETTA HOLSMAN FORE

FEDERAL GOVERNMENT	
1990 - Present	Assistant Administrator, Bureau for Private Enterprise, A.I.D. Directs extensive credit program and a portfolio of technical services provided to developing nations worldwide and Eastern Europe including privatization, international business, capital markets, executive and volunteer corps.
1990 - Present	Recently appointed Assistant Administrator for Asia. Directs all A.I.D. activities for India, Nepal, Sri Lanka, Thailand, Indonesia, ASEAN, Burma, The Maldives and the South Pacific.
1971 -1975	GS-7 to GS-12 General Services Administration, Denver, CO. Technical projects and general management responsibilities for a six-state area.
PRIVATE INDUSTRY	
1977-1990	President and Director, Stockton Wire Products, Burbank, CA. Largest manufacturer of wire corner and foundation trims in the United States. Sales market nationwide and international.
1981-1990	President and Chairman of the Board, POZACORP, INC., Burbank, CA. Manufacturer of gun cement admixture for stucco and plaster.
1975-1977	Independent Business Consultant, Denver, CO. Specialized in acquisitions, investments, tax shelters, and environmental planning.
1968	Bank Apprentice, Association Internationale des Etudiantes en Sciences et Economiques. The Bank of Greece, Athens, Greece.
SMALL BUSINESS	
1987 - 1990	Director, Water Quality Management, Burlington, Canada.
1975 - 1976	Founded and managed several entrepreneurial businesses in consumer and service products: Jenta Cards, Corgraphics, Faces, and Joman Research.
EDUCATION	
1966 - 1970	Wellesley College, Wellesley, MA B.A., Diplomatic History, Economics
1973 - 1975	University of Northern Colorado, Greeley, CO M.A., Public Administration (GPA 3.9 out of 4.0)
1982 and 1988	New College and Exeter College, Oxford University, England; International Politics
1986	The Graduate School of Business, Stanford University; Board of Directors Program
COMMUNITY ACTIVITIES	
1986 - Present	Treasurer, Young Presidents Organization, South Bay Chapter.
1987 - Present	Mentor, UCLA Graduate School of Management Entrepreneurship Program
1986 - 1987	Board of Trustees, Wellesley College, Wellesley, MA
1984 - 1986	Chairman, Los Angeles Women in Business Committee, OEF International, Washington, D.C.
1983 - 1986	National Alumnae Board, Chair of Clubs, Wellesley College, Wellesley, MA
1982 - 1984	Mentor, Scripps College Internship Program
1982 - 1983	President, Organization of Women Executives, Los Angeles, CA.

1980 -1983 President, Los Angeles Wellesley College Alumnae Club, Los Angeles, CA.
1974 - 1975 Director, Worlds for Women Conference, Denver, CO
1972 - 1974 President of Federally Employed Women, Rocky Mountain Region

MOST ACTIVE MEMBERSHIPS
Young President's Organization, The Committee of 200, Wellesley College Business Leadership Council.

RICHARD E. BISSELL

Experience

April 1990 to - Present	Assistant Administrator for Science and Technology, Agency for International Development, Washington, D.C.
1986-March 1990	Assistant Administrator for Policy and Program Coordination, Agency for International Development, Washington, D.C.
1986	Consultant, Department of Defense, Washington, D.C.
1984-1986	Executive Editor, The Washington Quarterly, Georgetown University, Washington, D.C.
1982-1984	Director of Research and Director of Program Development, U.S. Information Agency, Washington, D.C.
1982	Professorial Lecturer, Johns Hopkins School of Advanced International Studies, Washington, D.C.
1981	Consultant, Department of State, Washington, D.C.
1978-1982	Visiting Professor, University of Pennsylvania, Philadelphia, PA
1974-1982	Managing Editor, ORBIS; and Research Associate, Foreign Policy Research Institute, Philadelphia, PA
1975-1979	Visiting Professor, Temple University, Philadelphia, PA
1974-1976	Visiting Fellow, Princeton University, Princeton, NJ
1970-1974	Lecturer, Pine Manor College, Chestnut Hill, MA

Education

Standford University, 1965 - 1968, B.A.
Fletcher School of Law and Diplomacy, Tufts University, 1968 - 1973, M.A. and Ph.D.

Personal Data

Born: January 25, 1946, Palo Alto, California
Marital Status: Married to Suzanne Elizabeth Heilbron, 3 children
Address: 6515 Beverly Avenue, McLean, Virginia 22101

Languages

French and Italian

PHILIP L. CHRISTENSON

Present Position:	Assistant Administrator for Food for Peace and Voluntary Assistance
Born:	May 18, 1947 Ely, Nevada
Legal Residence:	1608 Commonwealth Avenue Alexandria, Virginia 22301

Marital Status: Divorced

Home Address: 2705 Unicorn Lane, N. W.
Washington, D. C. 20015

Education: BSFS, Georgetown University
School of Foreign Service

Language Ability: Spanish

Experience:

Government:

1987 -1988 Senior Professional Staff Member, Committee on Foreign Relations

1981 - 1987 Professional Staff Member, Committee on Foreign Relations

1974 - 1979 Department of Commerce
International Trade Specialist, U.S.

1966 - 1970 Department of State Mail Clerk, later Administrative Intern

1971 - 1974 Department of State Foreign Service Officer in Vientiane and Brussels

Non-Government:

1979 - 1981 Associate Director, United States-South Africa Leader Exchange Program, Washington, D.C.

WALTER G. BOLLINGER
Career Minister

PRESENT POSITION

January 1989 Acting Assistant Administrator, Bureau for Africa

OTHER EXPERIENCE

1987-89	Deputy Assistant Administrator, Bureau for Africa
1984-87	Deputy Assistant Administrator Bureau for Food & Voluntary Assistance
1981	Mission Director, USAID/Jordan
1980-81	Program Officer, Long-Term Training, Academic Year at Princeton University, N.J.
1978-80	Deputy Mission Director, USAID/Indonesia
1973-78	Program Officer, USAID/Indonesia
1973	International Cooperation Officer, Indonesia Desk, Office of East Asian Affairs, Bureau for Asia
1971-73	International Cooperation Officer, Turkey Desk, Office of East Asian Affairs, Bureau for Asia
1969-71	International Cooperation Officer, Pakistan Desk Office of East Asian Affairs, Bureau for Asia
1966-69	Assistant Program Officer/Operations, USAID/Tunisia
1965-66	Junior Officer Trainee, USAID/Laos
1965	Program Analyst Operations, USAID/Laos
1963	Trainee Public Relations Bureau, The International Nickel Co., Inc., N.Y.
1962	Trainee, Advertising Dept., Eastman Kodak Co., N.Y.

MILITARY

1962-63 U.S. Coast Guard

EDUCATION

1981	Princeton University (Int'l Affairs)	
1962	Columbia University	M.I.A.
1956-60	Bucknell University	B.A.

LANGUAGE

French S-2, R-3 (Tested 1967)

PERSONAL DATA

Date of Birth January 19, 1938

AWARDS

SFS Performance Pay Award, 9/83
SFS Presidential Award - Meritorious Award, 8/84
SFS Performance Award, 9/85
SFS Presidential Award - Meritorious Award, 9/86
SFS Performance Award - 12/86
SFS Performance Award - 12/87
SFS Performance Award - 12/88
SFS Performance Award - 12/89
Promotion - Career Minister - 12/89

CURRICULUM VITAE

Carol Craigle Adelman

Personal

4018 North 27th Street
Arlington, Virginia 22207

DOB: September 16,1946
Married, two children

Education

Doctor of Public Health, Johns Hopkins University School of Hygiene and Public Health, Baltimore, Maryland 1984

Master of Public Health, Johns Hopkins University School of Hygiene and Public Health, Baltimore, Maryland 1979

Master of Science, Georgetown University, School of Foreign Service, Washington, D.C. 1970

Bachelor of Art in Political Science and German, University of Bonn, Germany 1965-1966
University of Colorado 1968

Positions

Assistant Administrator for Europe and the Near East, Agency for International Development, Washington, D.C. 1988 - Present

Lecturer and author, International Economic Development 1985-1988

Professional Consultant, International Health and Nutrition (U.S. Government & private sector) 1983-1988

Completion Doctoral dissertation, free-lance writing, consulting 1981-1983

Nutrition Advisor, Near East Bureau of Agency for International Development, Washington, D.C.	1978-1981
Program Analyst, Office of Nutrition, Agency for International Development, Washington, D.C.	1975-1977
Assistant Program Officer, USAID/Zaire	1972-1975
Special Assistant to Assistant Administrator of Africa Bureau, Agency for International Development, Washington, D.C.	1971-1972
Program Analyst, Office of Development Planning, Agency for International Development, Washington, D.C.	1971
Special Assistant to Director of Congressional and Government Relations, Office of Economic Opportunity, Washington, D.C.	1970-1971
Special Assistant to Director of Operations, Office of Economic Opportunity, Washington, D.C.	1969-1970
Legislative/Case Work Assistant, House of Representatives, U.S. Congress, Washington, D.C.	1968-1969

JAMES P. MICHEL

EXPERIENCE

April 1990 to Present	Assistant Administrator for Latin America and the Caribbean, Agency for International Development, Washington, D.C.
1989 - April 1990	Detail from Department of State to Agency for International Development as Advisor on Latin America and the Caribbean, Washington, D. C.
1987 - 1989:	Ambassador to Guatemala
1983-1987:	Deputy Assistant Secretary, Bureau of Inter-American Affairs, Department of State, Washington, D. C.
1965-1983:	Office of the Legal Adviser, Department of State, Washington, D. C.
	1978 - 1983: Deputy Legal Adviser 1974 - 1978: Assistant Legal Adviser 1971 - 1973: Deputy Assistant Legal Adviser 1965 - 1971: Attorney-Adviser
1958 - 1965:	Clerk and Fingerprint Technician, St. Louis Metropolitan Police Department, St. Louis, Missouri
Performance Awards:	Superior Honor (1971, 1976, 1983); Distinguished Honor (1981); Senior Executive Service Presidential Rank, Meritorious (1980, 1987), Distinguished (1982).

EDUCATION

1959 - 1961:	Harris Junior College, St. Louis, Missouri (no degree)
1961 - 1962:	Saint Louis University, St. Louis, Missouri (no degree)
1962 - 1965:	J.D., cum laude, Saint Louis University School of Law

PERSONAL DATA

Born:	August 25, 1939, St. Louis, Missouri
Marital Status:	Married, four children
Address:	315 West Columbia Street Falls Church, Virginia 22046

HOWARD M. FRY

700 New Hampshire Avenue, N.W.
Apartment 1409
Washington, D.C. 20037
(202) 333-8641 (H)
(202) 647-8548 (O)

PROFESSIONAL HISTORY

General Counsel — 1983 - Present
Agency for International Development
Washington D.C.

Responsible for the legal affairs of the United States government agency dispensing over 5 billion dollars a year in foreign assistance to over 70 countries around the world. Provide legal and policy advice to the Administrator and senior staff of the Agency. Manage a legal staff of 60 lawyers, 25 of them overseas in 17 countries.

Led the strategy development of AID's defense in response to several major law suits brought against the federal government on constitutional or procedural grounds.

Other responsibilities are to: ensure compliance with complex statutes; review and approve the technical aspects of all Congressional presentations and notifications; develop technical language for proposed legislation; arbitrate disputes; oversee the hiring and management of all legal personnel; review all AID projects in sector assistance, procurement, construction contracts, scientific research, promotion of private enterprise, taxes, trade, debt rescheduling, litigation, loan asset sales, and the promotion of legal education.

Partner — 1974 - 1983
Fry & Golden
Reading, Pennsylvania

Founded and managed own law firm consisting of one partner and three associates. General practice with emphasis on corporate banking and real estate law.

Corporate Director — 1960 - 1986
Reading, Pennsylvania

Director and Officer — 1974 - 1982
Reading Aviation Service, Inc.

As a Director and Officer of Reading Aviation Service, a commuter air line, oversaw a period of rapid growth. Airline was subsequently called Suburban Airlines and is now a part of U.S. Air.

Director and Officer — 1964 - 1986
Dutch Colony Motor Inn

Founder, developer and part owner of this motel.

Director 1967-1985
Penn Savings Bank

Director and General Counsel of this federal savings and loan association.

Officer 1960 - 1970
Wyomissing Corporation

Officer of Wyomissing Corporation (now Alco Standard Corporation). Was active in management of family controlled textile and paper coating business. Involved with all aspects of planning, financing, public offering, research, post employment restraints, and labor relations. Participated in the acquisition of and led the subsequent liquidation of a subsidiary textile operation in Holland.

Associate and Partner 1957 - 1974
Stevens and Lee
Reading, Pennsylvania

General practice with emphasis on corporate financial and real estate law.

EDUCATION

Harvard Law School, Cambridge, Massachusetts, 1957
Yale University, New Haven, Connecticut, BA, 1953
St. Paul's School, Concord, New Hampshire, 1949

OTHER CIVIC AND PROFESSIONAL AFFILIATIONS

Admission to the Pennsylvania Bar, 1958
Admission to the Florida Bar, 1980
Delegate to Republican National Convention, 1968, 1972
Republican State Finance Committee Member, 1966 - 1976
Chairman, Berk County Republican Finance Committee, 1964 - 1974
Elected School Board, 1963 - 1965
Board of Trustees, Homemakers Association, 1962 - 1964
Board of Directors, Wyomissing Institute of Fine Arts, 1966-1970

PERSONAL

Married, Nancy L. Nickerson, four children

Residual disability from polio incurred in 1955.

Traveled in Asia, Latin America, and Africa. Multiple trips to Egypt. Resided in Holland for six months.

Legal residence:
8 Aquidneck Avenue
Watch Hill, Rhode Island 02891
(401) 596-1304

Business Address:
Agency for International Development
Room 6895
320 21st Street, N.W.
Washington, D.C. 20523

BIOGRAPHY OF ALEXANDER R. LOVE

Alexander Love joined A.I.D.'s predecessor agency, the Development Loan Fund, as a management intern in 1961. In 1987, Mr. Love was named Counselor to the Agency, the senior career and number three position in A.I.D. As Counselor, Mr. Love enjoys an alter ego delegation of authority from the A.I.D. Administrator and advises and assists in the overall management and direction of economic assistance programs in sixty countries totalling more than $6 billion per year. In January 1990, Mr. Love assumed concurrent responsibilities as

Assistant to the Administrator for Personnel and Financial Management.

Mr. Love spent his initial years in A.I.D. specializing in the East Asia and South Asia areas. He specialized as a loan officer, first for East Asia, then as Philippine Desk Officer, and last as Director of Project Development for Asia. In 1978, he moved to the Africa region serving from 1979 to 1982 as the Director of the A.I.D. Regional Office serving East and Southern Africa, based in Nairobi, Kenya. From 1982-1987 he was Deputy Assistant Administrator and, periodically, Acting Assistant Administrator for the Africa Bureau. In that capacity he played a key role in the formulation and implementation of the President's famine relief program during the 1984-85 drought. He also played a key role in developing new legislation enacting the Development Fund for Africa.

Mr. Love received a BA in Civil Engineering from the University of California at Berkeley in 1955 and a BS from Berkeley in Business in 1958. He received an M.B.A. from Harvard University, School of Business in 1961. He was an officer in the U.S. Navy from 1955-1957, serving in the Far East.

Mr. Love is a Career Minister in the Senior Foreign Service. Mr. Love is recipient of the Presidential Distinguished and Meritorious Service Awards and the Luther I. Replogle Award for management improvement.

BIOGRAPHY OF MICHAEL DOYLE

1989 - Present	Assistant to the Administrator for Management Services, Bureau for Management Services, Agency for International Development
1986 - 1989	Assistant U.S. Trade Representative (USTR) for Administration in the Executive Office of the President
1980 - 1986	Director of Administration, International Trade Administration, U.S. Department of Commerce
1977 - 1980	Executive Assistant to two Deputy Secretaries of Commerce
1973 - 1977	Acting Deputy Assistant Secretary of Domestic Commerce (1977); Acting Deputy Bureau Director (1976); Special Assistant (1973-1975) Department of Commerce
1969 - 1973	Staff Member, Office of Policy Coordination; Management Intern (1969-70), Economic Development Administration, Department of Commerce

Education

University of Rhode Island, 1964 B.A.
University of Rhode Island, 1969 M.A.
Eagleston Institute of Politics, Rutgers University, 1964-65
University of Rhode Island, 1965-66, 1966-67; University of

Pennsylvania, 1967-68, 1968-69; Fellowships for Graduate Work in Political Science
Harvard University, 1982 Senior Management Course

Personal Data

Born:	September 19, 1941
Marital Status	Married to Elisa Falciglia, 2 Children
Address	2026 Peppermint Court, Reston, Virginia 22091

BIOGRAPHY OF MICHAEL G. USNICK

CURRENT POSITION: Controller and Chief Financial Officer
Director, Office of Financial Management
Agency for International Development

EDUCATION: B.A., Texas Christian University, 1972
M.P.I.A., University of Pittsburgh, 1974

EXPERIENCE:

1974-1978	Budget Examiner, International Affairs Division, Office of Management and Budget, Washington, D.C.
1978-1980	Graduate Assistant and Full-time Doctoral Student, University of Pittsburgh, Pennsylvania
1980-1987	Senior Budget Examiner, International Affairs Division, Office of Management and Budget, Washington, D.C.
1987-1988	Deputy Controller for Budget, Agency for International Development, Washington, D.C.
1988-Present	Controller and Director of the Office of Financial Management, Washington, D.C.

MANAGEMENT REVIEW

SENATOR LEAHY: Amb. Edelman, in view of its longstanding management problems, is A.I.D. capable of identifying and dealing with its management weaknesses without outside help? Have management consultants ever reviewed your management for you? If so, what were the results?

AMB. EDELMAN: A.I.D. is capable of identifying management weaknesses and has successfully used in-house resources on task forces, etc. to define problems and recommend and implement solutions. However, we also have augmented these staff with external consultants or firms and, as Dr. Roskens has indicated, will continue to use external assistance for such reviews.

Management consultants have assisted us with studies in many areas raised by Committee members: information management, personnel performance evaluation, automation, organizational efficiency, contracting procedures, and financial controls. We obtained valuable assistance from them and have used their advice to shape our decisions and implementation actions.

We have not used such resources recently to look at our overall command and control structure, but are considering such a review after ongoing improvements are completed.

QUESTIONS SUBMITTED BY SENATOR ROBERT W. KASTEN, JR.

HOST COUNTRY CONTRACTING

SENATOR KASTEN: General Beckington, for a number of years, you have brought to this subcommittee problems associated with host-country contracting. We are also familiar with some of those problems which have affected constituents.

Can you estimate the amount of A.I.D. funding each year which goes through the host country contracting mode?

GENERAL BECKINGTON: No, I have no reasonable way to estimate the dollar value of the host country contracting mode. Agency records are incomplete on this subject. I am informed that a partial inventory as of October 1, 1989, identified about $1.5 billion in host country contracts active as of that date.

SENATOR KASTEN: One of the arguments used in support of host-country contracting is that it is an instrument of development.

Have you noticed any improvement in Egypt because it has carried out many of its programs via the host country contracting method? That is, are they getting any better at it?

GENERAL BECKINGTON: I have not made a specific review of the Egyptian contracting system and therefore cannot give a specific answer as to whether it has improved. I do know that recent audits of the Egyptian program continue to find severe deficiencies in this mode of delivery. Also, the General Accounting Office is currently making a worldwide audit of the host country contracting process and Egypt was included in that review. I will ask the GAO to provide the Committee with a copy of that report when it is issued.

EVALUATION FUNCTION

SENATOR KASTEN: Amb. Edelman, the evaluation function of A.I.D. is generally carried out by the bureaus themselves utilizing personnel who have either current or former vested interests in what they are evaluating. The system allows Mission Directors to effectively shelve evaluations if they disagree with them.

Don't you think that in order to have a valuable and independent evaluation function, it is necessary to arrive at a formula to separate that function from its current status?

AMB. EDELMAN: Right now, most of our evaluations are done by or for Missions, mostly involving teams of external evaluators, to support direct Mission management of their operations. This is an essential role for evaluation, and one we must retain. But we also balance this role with a central evaluation capability that can provide senior management with impartial information that is not so narrowly focussed on immediate Mission concerns.

We are always searching for ways to strengthen our evaluation system. Over the past two years, for example, we have been developing a more systematic method for them to gather and report information on the progress and impact of major parts of field programs. We are currently monitoring this system to see if the effort needs to be accelerated.

It is managerially appropriate to have an evaluation capability at the Mission level, since that is where major decisions are made about programming and implementation. We expect our Missions to be fully committed to getting the most results out of their aid

activities. We also expect them to report annually to Washington on progress in achieving or moving toward the targets that were agreed to in their most recent program planning cycle. We recognize, of course, that there will always be different points of view and criteria involved in assessing the "value" of the progress and impacts they report. That is one of the reasons we balance Mission evaluation work with a central evaluation office that can take a broader look at our program.

It is true that evaluators are often the bearers of bad news and occasionally an evaluation is simply poorly done. It is possible that a Mission Director might shelve an evaluation, but we don't believe this to be a common practice. Project and management audits by the IG serve as our principal check on whether evaluation responsibilities are being carried out by Missions. Our main concern is to make sure that our Missions use evaluations to increase the effectiveness and impact of their aid programs.

Basically, I see evaluation as a means of discovering and learning how to do things better, over and above investigating whether we did things exactly the way we initially expected to. Evaluators can and should search-out results with the aim of assessing their significance and building upon them.

SENATOR KASTEN: General Beckington, isn't it a fact that most IGs in the Government also handle the evaluation function?

GENERAL BECKINGTON: Yes, many statutory IGs do have the evaluation function for their departments. In a recent informal survey by my office of twelve statutory IGs, we found the departmental or agency evaluation function to be located in eight of the twelve IGs.

SENATOR KASTEN: Amb. Edelman, how would you react if Congress suggested that the evaluation function be put under the IG.?

AMB. EDELMAN: Part of A.I.D.'s evaluation function can and does fall within the purview of the IG. The IG's office already conducts program and project audits assessing whether actual program and project activities reflect initial plans. Indeed, the IG's evaluation role could even be expanded -- for example, by having the IG's office conduct evaluation system audits that assess the adequacy of program and project performance information.

There is an important distinction to be made between audit and evaluation. While the IG plays an extremely important role in reporting on A.I.D.'s financial performance and accountability, it is not particularly well suited to help the agency learn from its experience, discover new possibilities, or best invest resources for the future.

A.I.D.'s development professionals and the experts we enlist to assist in our evaluation activities have the broad development experience needed to perform high quality evaluations. If the evaluation function, as a whole, were put under the IG we would lose this invaluable expertise. Strengthening evaluation at the Mission, Bureau, and A.I.D./Washington levels is critical to strengthening A.I.D.'s overall management.

LOCAL CURRENCY ACCOUNTABILITY

SENATOR KASTEN: In the report which accompanied the fiscal year 1990 legislation, we called for the agency to meet with interested parties, including committees in congress, to discuss

the problem of local currency accountability. This has not happened except for one short meeting between committee staff and one A.I.D. official who was recently taken off this responsibility.

Do you believe as we do that accountability and use of local currency is a serious issue?

AMB. EDELMAN: The policy on how A.I.D. manages host country-owned local currency generated by the foreign assistance program is under active consideration. The issue was discussed at the Administrator's recent retreat in Annapolis, and again at the Administrator's senior staff meeting last month.

A.I.D. agrees that monitoring and control of local currency is a serious issue. A.I.D. is currently preparing supplementary guidance to missions which will require missions to perform financial assessments of the host government units which administer local currency special accounts, to include in programming documents detailed information on how special accounts will be monitored and reported on, and to ensure that audits are performed on local currency special account activities.

Another and more difficult component of this issue involves jointly programmed local currency for non-project activities, such as assistance to the development budgets of host country ministries. This subset of issues is also under active consideration and will be part of revised operational guidance being drafted for A.I.D. field missions.

There has been an overall improvement in A.I.D. monitoring of local currency special account activity. Our overseas missions reported in the 1989 Internal Control Assessments that host country systems were adequate to monitor such funds in 41 out of 50 developing countries, up from 36 of 50 in 1988. During 1990 A.I.D. will work with the governments of the remaining 9 countries to correct control weaknesses.

I believe that missions have become more aware of the need to ensure accountability for local currencies and have improved management control accordingly. A survey of missions conducted in 1989 on the subject of local currency special accounts revealed that most missions are monitoring deposits into and disbursements from the special accounts. Missions were not uniformly receiving reports and audits on the special accounts, however, and that finding is being addressed in the supplementary guidance referred to above.

CONSOLIDATION OF ASIA/NEAR EAST BUREAU

SENATOR KASTEN: As you know, several years ago, A.I.D. decided to consolidate the Near East and the Asia Bureaus. That Bureau has recently been given responsibility for Eastern Europe as well. It is an understatement to suggest that this bureau is already too large and diverse to be put under one head. Don't you think it's advisable to split this bureau once again into two separate entities?

AMB. EDELMAN: The size of the Asia, Near East and Europe Bureau has been a topic of discussion between A.I.D. and the Congress and within A.I.D. for some time now. I am happy to note that the discussion has focused on the size of the Bureau rather than its performance, which has been consistently excellent.

We are currently considering a reconfiguration of the ANE Bureau. Our plans, however, are not yet firm. Therefore, I would like to get back to you at a later date.

(NOTE: As of June 28, 1990, the reorganization of A.I.D.'s

largest bureau, Asia, Near East and Europe, become effective. The reapportionment of responsibilities was done to reduce growing management pressures by transferring certain country programs to A.I.D.'s smallest bureau, Private Enterprise.

(The new arrangement will assign responsibility for country programs in Thailand, Burma, the South Pacific, South Asia (India, Sri Lanka, Nepal, Maldives, Bangladesh), Indonesia and other ASEAN nations, to the Assistant Administrator for Asia and Private Enterprise. In addition, the reformulated bureau will retain leadership on worldwide private enterprise initiatives, and assume responsibility for the Housing Guaranty program. Responsibility for North Africa, the Mid-East, Near East, Europe, Cambodia and the Philippines will be managed by the Assistant Administrator for Europe and the Near East.)

QUESTIONS SUBMITTED BY SENATOR ALFONSE D'AMATO

SIDE LETTER WITH ISRAEL

SENATOR D'AMATO: I understand that for 1990 Israel did not renew its 11-year agreement with the U.S., known as the "side letter", which calls for Israel to purchase U.S. goods and services with its U.S. foreign aid allotment. Is this true? If so, what is A.I.D. doing to press Israel to sign the "side letter"?

AMB. EDELMAN: No, that is not true. Israel did sign a side letter in connection with the FY 1990 cash transfer which stated that "The GOI shall take all steps to ensure that the dollar level of Israel's non-defense imports from the U.S. will be at least equal to the level of U.S. economic assistance obligations during the year." This commitment, identical to that given in the past, does not necessarily involve use of our foreign aid allotment but requires Israeli purchase of U.S. goods and services in an amount at least equal to that allotment.

ISRAELIS PURCHASING GRAIN FROM EUROPE

SENATOR D'AMATO: It has also been brought to my attention that Israel is now using U.S. foreign aid funds to purchase subsidized grain from Europe and transporting it in subsidized foreign-flag ships. Is this true? If so, what is A.I.D. doing to press Israel to halt this practice?

AMB. EDELMAN: No, that is not true. Under the cash transfer agreement with Israel, the use of U.S.-provided funds has been approved for debt repayment or the purchase of commodities from the United States. The funds are being used for those purposes. The Israelis can not use these funds without A.I.D.'s approval and we would not approve use of the funds to purchase grain from Europe.

PROCUREMENT OF OCEAN TRANSPORTATION

SENATOR D'AMATO: It has been pointed out to me that the means by which A.I.D. procures ocean transportation services bears little resemblance to standard federal procurement practices. Could you describe the bidding procedures used by A.I.D. in procuring ocean transportation services? What benefits are gained from these non-standard practices?

AMB. EDELMAN: A.I.D.'s procurement of ocean transportation services is currently limited to food aid commodities moving under provisions of the P.L.-480 Title II bilateral program. During calendar year 1989, a total of 413,206 metric tons representing ocean freight of $29,568,408 was procured under this program.

The contracting procedures used by A.I.D. in procuring transportation services, are essentially the same procedures as were utilized by the Department of Agriculture (USDA) prior to their transferring this responsibility to A.I.D. in 1985. These procedures are similar to those used by many commercial purchasers of ocean transportation. The procedure utilized by A.I.D. can be outlined as follows: A notice of cargo availability is made by USDA to the freight forwarder under contract to A.I.D. This notice includes the port of loading, tonnage and date cargo will be available at the port.

A.I.D.'s freight forwarder prepares a freight tender that will be published on a transportation wire service (TNT). The tender includes all terms and conditions of the contract. Offers are requested to be submitted by a specific date and time. Late offers will not be considered. Offers may be hand carried or sent via fax or telex to the freight forwarder. A.I.D. approves all freight tenders prior to issuing.

After the close of the tender, the freight forwarder prepares a recap of all offers and sends it and all offers to A.I.D. and to USDA for flag determination. USDA will decide to go U.S. flag or foreign depending on the freight differential (between U.S. and foreign offers) and how the program's cargo preference statistics look. The freight forwarder advises A.I.D. of USDA's decision. A.I.D. determines the competitive range of those offers, either U.S. or foreign, that should be traded.

During negotiations, A.I.D. orchestrates a round robin negotiation of those offers in the competitive range. All offers are traded on equal terms and conditions. Offers are ranked from low to high. A rate level sufficiently below the lowest rate offered, so as not to be t[illegible]n the first round of negotiations, is selected as the first co[illegible]. Each offeror in the competitive range is given the same cou[illegible] in rotation, not revealing the other offeror's rates. If no one accepts the first counter, the competitive range is realigned in order of low to high, taking into consideration the offeror's counter. A.I.D. increases the first counter and offers the higher counter to all in the competitive range. This procedure is repeated until someone accepts a counter.

These procedures ensure the widest distribution of information regarding the procurement activities within the maritime industry, and provide for full and open competition of all responsive offers. The primary difference between the system used by A.I.D. and the one used by USDA when they procured this transportation is the use of a private sector contractor administered by A.I.D. to perform the booking and freight forwarding services. It differs from standard government procedures only in that the lowest bidder in each round is given first opportunity to meet each counter, as opposed to all bidders in the previous round bidding simultaneously. Although this system has worked extremely well over the last five years, it is currently undergoing review by our Procurement Executive to determine if modification to the system may be appropriate. The benefits received from this system include (1) the ability to obtain a wide range of offers from available vessel owners to meet the delivery requirement of our food aid program, and (2) the cost effectiveness of competitive bidding which last

year resulted in a reduction of one and a half million dollars in the freight rates originally offered for these cargoes.

QUESTION SUBMITTED BY SENATOR ARLEN SPECTER

DEBT FOR DEVELOPMENT

SENATOR SPECTER: On March 7, 1990 you represented the Agency for International Development (A.I.D.) at a ceremony in which A.I.D. signed an agreement with the International Foundation for Education and Self-Help (IFESH) to provide $2 million to acquire bank debt in developing countries to be used for education and human resource development. The initial grant will be used in Nigeria, Guinea and Niger. It is my understanding that Rev. Leon Sullivan, the founder of IFESH, has requested that A.I.D. expand the initial "debt-for-development" effort to $10 million in FY 1991. Dr. Roskens received a letter dated May 9, 1990 from Senator DeConcini and myself supporting such an expansion.

What is the extent of the "debt for development" efforts being supported by A.I.D.? What is the extent of such initiatives being operated by private voluntary organizations such as IFESH? Are plans underway to expand "debt for development" initiatives conducted by private voluntary organizations?

AMB. EDELMAN: The recently signed IFESH grant represents our first debt-for-human development project. Since this type of activity is new for both A.I.D. and IFESH, A.I.D. believes it would be prudent to allow implementation to proceed before making further commitments. The first country evaluations are scheduled to take place in mid-FY 1991. If the evaluations are sufficiently positive, A.I.D. will then be in a position to consider additional funding requests.

In addition to the IFESH grant, A.I.D. has supported debt-for-nature exchanges in Bolivia (1987), the Philippines (1988) and Madagascar (1989). A debt for natural resources activity was recently authorized in Ecuador and various types of debt exchanges are planned for Ecuador, Panama, Paraguay and the Philippines. Each of these programs is, or will be, implemented by a non-government organization (NGO) usually a U.S.-based private voluntary organizations (PVO), cooperative or university (the A.I.D. grantee) working with a local NGO. A.I.D. invites NGO's to develop proposals for grants and cooperative agreements with A.I.D. to implement the A.I.D. Debt for Development Initiative. Indeed, an intermediary such as a PVO is essential to the implementation of an A.I.D.-financed debt conversion, as A.I.D.'s regulations do not allow A.I.D. itself hold a debt instrument. To encourage greater use of debt exchanges in developing countries, A.I.D. also provides grant assistance to the Debt for Development Coalition, a Washington-based PVO, charged with informing and assisting the not-for-profit community on ways to utilize the debt conversion mechanism.

SUBCOMMITTEE RECESS

Senator LEAHY. The subcommittee will stand in recess until 2:30 p.m., on Tuesday, June 12, when we will hear from the Secretary of State, Lawrence Eagleburger, on Eastern Europe: Assistance to the emerging democracies.

[Whereupon, at 4:15 p.m., Tuesday, June 5, the subcommittee was recessed, to reconvene at 2:30 p.m., Friday, June 22.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

FRIDAY, JUNE 22, 1990

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:10 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Patrick Leahy (chairman) presiding.

Present: Senators Leahy, DeConcini, and Kasten.

DEPARTMENT OF STATE

STATEMENT OF REGINALD BARTHOLOMEW, UNDER SECRETARY FOR INTERNATIONAL SECURITY AFFAIRS

DEPARTMENT OF DEFENSE

STATEMENT OF HENRY S. ROWEN, ASSISTANT SECRETARY FOR INTERNATIONAL SECURITY AFFAIRS

DEFENSE SECURITY ASSISTANCE AGENCY

STATEMENT OF LT. GEN. CHARLES W. BROWN, DIRECTOR

OPENING STATEMENT OF SENATOR PATRICK LEAHY

Senator LEAHY. Good morning. I am delighted to have everybody here. And if I seem a little tired and harried today, it is because we finished up the farm bill in committee around 11 p.m., or so last night, and it was a contentious affair. I explained to all the other Senators we had to finish it because we had a distinguished panel of witnesses here this morning, and if we did not finish, I would be discussing soybeans and not foreign aid.

The United States has provided more than $140 billion in military aid abroad since World War II. Much of that aid was used to strengthen our allies, to help friends defend their security or to defer regional conflicts. And most of us here in the Congress supported that.

But a lot was used for purposes that are harder to justify: propping up anti-Communist regimes that often lack even the trappings of democracy. Some as mere access money that opens doors for our Ambassadors abroad. A great deal is nothing more than thinly disguised rent for increasingly anachronistic military bases.

In still other cases, our guns and bullets have been used to commit atrocities against people whose only crime was to seek human rights we take for granted, and to protest corruption, such as in El Salvador, Somalia, and elsewhere.

For the past four decades, our decisions about military aid stemmed from the cold war. Today's world bears little resemblance to the world of only 1 year ago. I believe it is time to reassess and to readjust.

President Bush has an historic opportunity to lead us out of that dark period, to reshape our foreign aid to meet today's new challenges.

The first step must be to begin shifting resources from military aid to economic development and export assistance. Our security, and the future of democracy overseas, will depend far, far less on military power than on our support for democratic institutions, our efforts to alleviate overpopulation, massive poverty, environmental degradation, and our ability to compete in the markets of Eastern Europe and the Third World.

I am not going to criticize the administration for this military aid request before us. It was put together last year; a lot has happened since then, although, I must say that some of the positive trends were visible even then. But I will fault the administration if it refuses to join with us in adjusting to new realities and different challenges. There is no justification for a $300 million increase in foreign military financing, the heart of our military aid program.

So, Mr. Bartholomew, General Brown, Mr. Rowen, I am inviting the administration to work with Senator Kasten and me and the members of this subcommittee in working out a reasonable cut in military aid. This is a sincere invitation. Because if we are unable to work together, then the Congress will do it itself. I would much rather do it in conjunction with all of you.

So we will have statements by Secretary Bartholomew, and then Secretary Rowen, and then General Brown.

OPENING REMARKS OF HON. REGINALD BARTHOLOMEW

Mr. BARTHOLOMEW. Thank you very much, Senator.

Senator, I have submitted a prepared statement, which is an overview of the administration's request and the rationale for it. But what I would like to do, in some brief opening remarks, is address directly some of the issues of specific interest, that I know that are of specific interest to this committee and particularly to you, Mr. Chairman.

I want to tell you that I read your statement on new directions in foreign aid very carefully. I find much in it with which I can agree. It will not surprise you, if, on some critical points, I tell you that we will not see eye to eye.

Senator LEAHY. I understand. I do appreciate you having read it, though. I always wonder, when my staff and I work hard at something like that whether anybody actually reads it. So I am delighted. And I will mark that down. Now you have read it, my wife has read it, and my mother has read it. [Laughter.]

Although, I must admit, after getting a nice handwritten note from the President, I think he has read some parts of it, too.

Mr. BARTHOLOMEW. Senator, I not only read it, I underlined it. [Laughter.]

Senator LEAHY. Well, you are ahead of me. You are ahead of me.

Mr. BARTHOLOMEW. Speaking against that background, Senator Leahy, the administration is convinced that its request in fact reflects a balanced set of priorities in trying to allocate the Nation's resources. And when I say balanced, I mean balanced first in the fundamental sense of the distribution between economic aid and military aid.

And I mean, second, balanced also in the sense of addressing new needs and objectives for the Nation and also addressing continuing needs and objectives for the Nation.

If you look at the first point, two-thirds of the total assistance request by the administration is economic aid; one-third is military aid. On the surface and on the face of it, not a gross imbalance or emphasis on military assistance.

Moreover, if you look at the program, we think we can argue that it is similarly balanced by region and by country, according to the particular needs and objectives with no special effort to emphasize the military dimension.

For example, to single out one case, in the case of Africa, 96 percent of total United States assistance to Africa is economic. And only 4 percent of that assistance is military.

Similarly, Senator, we think we are allocating resources to meet new needs, and here I would cite, in particular, in this request the $300 million to Eastern Europe to go with the $400 million we are already providing to what I would call the new democracies; in fiscal year 1991, $200 million for reconstruction of democracy of Nicaragua, to go with the $300 million we sought this year in the supplemental and the $500 for similar purposes in Panama; $175 million for our new effort against drugs in the Andean region.

And these are all efforts that I would cite—there are others—where we are adapting to new needs.

That said, we also continue to have some critical priorities and objectives where, may I use the phrase, our Nation's security is concerned, world security is concerned, and our interest in fostering peace and in fostering stable democracies elsewhere in the world is concerned; these are priorities and objectives that we believe have to continue to be met.

I would submit to you, sir, these continuing needs are not, I repeat not, artifacts of the cold war. Certainly this administration, President Bush, Secretary Baker, are clearly in the forefront of the effort to carry us beyond the cold war, beyond containment. And I can attest to that directly by my own participation in the summit and in the ministerials, where we have made this effort, both with the allies and with the Europeans.

But I submit to you, sir, that these continuing needs to which I am about to refer, are not artifacts of the cold war. They have, in fact, to do with continuing challenges to the kind of world that we want to live in, and the kind of role we feel the United States has to play within it.

These continuing needs have to do with vital relationships with key countries around the world. Let me cover them very briefly.

Consider Egypt and Israel—Egypt and Israel account for fully 62 percent of our global military assistance. This military assistance, along with economic assistance, is about Camp David. It is about the peace process. It is about the security of Israel. It is about our critical interest in a strong relation with Egypt. It is about our own responsibility to do what we can to secure stability in a vital area.

It is also about our interest in trying to create regional conditions that will militate against new threats such as the proliferation of weapons of mass destruction. It is most certainly not about the cold war and not about militarism.

A second priority: NATO's southern flank. Here I speak of Turkey, Portugal, and Greece. This represents another 20 percent of our global military assistance. I think, Senator Leahy, all of us would agree that NATO and its collective defense got us where we are today, to the much more favorable world that we see emerging, and that NATO and its collective defenses are going to have to remain the foundation stone for any kind of new architecture that we want to build in Europe.

We also need to maintain some of the vital bilateral security relationships we have with old and valued allies, even as we reach out beyond the alliance to create the kind of Europe that will integrate the new states of Eastern Europe, and yes, in the long run, integrate the Soviet Union in stable and peaceful ways.

But these basic objectives here, where NATO is concerned and its role in building beyond the cold war and building beyond containment—I submit to you, sir, that is what this money is about, for Turkey, Portugal, Greece. It is money not to expand these countries' forces, but to modernize them so that their forces can continue to play the kind of role in security and stability that we need as allies.

Senator, if I paused right here to recapitulate, 82 percent of our total military assistance to the world goes for those two fundamental tasks: Middle Eastern peace and NATO as the cornerstone now and for the future—82 percent.

We do not think this is a misplaced priority. But looking beyond that, we have some still other critical needs that are addressed in the program, including through military assistance. I speak first of Central America. I ought to start out by noting that 80 percent of our total aid to Central America—a full 80 percent of it—is economic.

But our aid together, economic and military, is about ending the war in El Salvador by negotiation and reconciliation. It is about helping to try to create the conditions—the framework—for regional democracy, regional peace and prosperity.

Senator Leahy, I know of your special interest where El Salvador is concerned, and your active involvement in the effort underway to build a bipartisan consensus on what we can and should be doing where El Salvador is concerned in the way of assistance. And we are very interested in pursuing that effort with you, sir.

MILITARY AID TO HONDURAS

Senator LEAHY. In Honduras, for example, you have asked for double last year's military aid allocation—$40 million. We were

always told that we had to build up Honduras' Army because of the massive threat from the Sandinistas. But now the Sandinistas have been voted out of power, the Chamorro government is cutting the army in half.

I want to help Honduras, but why do we have to double the military aid allocation to Honduras? I would think that the threat is going down, not going up. Or is this just a way of saying thank you for covering our tail with the Contra camps for all of those years?

Mr. BARTHOLOMEW. Senator, we asked last year for $60 million for Honduras. We had $20 million allocated. We did not come back to you this year and ask for the $60 million we asked for last year. We did ask for $40 million. We did it because we think we have to be careful, and that the need to be careful dictates a continuing effort to modernize, sustain, and train the Honduran military, while we try to work out the Central American peace plan.

I have to say that, despite the transfer of power in Nicaragua, there is continued evidence of arms flows to the FMLN. And even with, as you referred to, the recently announced troop cuts in Nicaragua—in Nicaragua's Armed Forces, in the Sandinista's forces, their forces will remain twice the size of the Honduran Army.

We are happy about the resistance demobilization. We are happy about the announced troop cuts of a few weeks ago. But Nicaragua does remain a polarized society. It is in a full flood of transition.

Senator LEAHY. Incidentally, I just wanted to make sure I correct one thing. The $20 million to Honduras was not an earmark by the Congress. The decision was made by the administration. And when you say the administration requested $60 million, but allocated $20 million, well the administration made that determination. They could send whatever amount they wanted to send.

Mr. BARTHOLOMEW. I take the point, Senator. The word I should have used was allocated. You are entirely right.

Senator LEAHY. I did not want anybody to get the idea that perhaps Congress had earmarked that.

Mr. BARTHOLOMEW. No; you had not earmarked.

Senator LEAHY. But now you prefer twice what the administration felt was necessary last year? So it still goes back to my original point. If things are better there, why are you suddenly requesting twice what was allocated to Honduras the year before?

I am very impressed with the new President of Honduras—Rafael Callejas. He came to Vermont where I had some lengthy talks with him. I think there are a number of reasons why we might want to help Honduras.

But a cynical person might wonder if this extra $20 million request isn't a thank you for all that past help with the Contras along the border.

Mr. BARTHOLOMEW. Senator, we did not give $20 million—allocate $20 million to Honduras last year because we thought that that is all they should have and that that is all that it made sense to allocate to Honduras. We did it because, as a function of the bill that we got, a combination of reduced funding and earmarks $20 million was the best we could do. We thought we should do better. We think we should do better this year and for some of the facts that I laid out to you earlier on.

MILITARY AID TO EL SALVADOR

Senator LEAHY. Well, let us slip across the border to El Salvador. Congress put a ceiling of $85 million in military aid to El Salvador. The administration wanted no restraints on aid to El Salvador, no cuts on aid to El Salvador no matter what was going on there.

Everybody who supported the administration's stand against limits, cuts, or restraints went to the floor of the House or the Senate stating their support for the administration because all of these cases of human rights violations—especially the Jesuit case—were coming to a successful conclusion. They would not cut off aid then because the investigations were supposedly getting somewhere.

I mention this because I have been compiling all the speeches of those who said that there is a light at the end of the tunnel, we are almost there. The Jesuit case will be completed.

Well, let me tell them now that the Jesuit case is at a standstill. I am willing to wager that no high-ranking Salvadoran official will ever, ever be tried and convicted in that case, no matter how strong the evidence.

I have reviewed the evidence. I went to El Salvador and personally reviewed it. I realize they have a different criminal justice system than we have, but I spent 8 years as a prosecutor and I tried a lot of murder cases. I never saw a case where people worked so hard to make sure they could not win as with the Jesuit case—lost evidence, disappearing witnesses, statements not taken, people put off limits as far as asking them questions, evidence destroyed.

This is a case where it is almost as if the perpetrators of the crime were allowed to go into the prosecutor's files and take out whatever they wanted. In fact, I would suggest, Mr. Secretary, that that is virtually what happened in this case. Some of the same people accused of criminal conduct were allowed to tamper with the evidence. So, nothing has happened with the Jesuit case.

Before I sit down at the next meeting with Secretary Baker and others to discuss another bipartisan accord, I would like to know if there is a general feeling now that we adopt a different attitude this year, notwithstanding everything said last year about no further aid unless they clean up their act. Is the administration going to say there is another reason to continue aid now?

Mr. BARTHOLOMEW. Senator, I think what I can say is, look, if we do not get progress in democratization and human rights, the rule of law and, in particular, if there is a failure to investigate fully and prosecute aggressively in the Jesuit case, this would obviously affect assistance. I mean, Senator, look. We have accepted the condition. The administration has accepted the concept of conditioning aid, even as it opposes the military cut which has been talked about, which we are concerned could encourage the FMLN not to negotiate.

But in any event, the Secretary is working—will work with Congress and with the leadership to try to create a bipartisan consensus where the assistance is concerned. And we will be looking for, from our standpoint, a policy that reflects both, on the one hand, support for El Salvador, but also, yes, Senator, the serious concerns that we all have over the handling of key cases.

And so I think that this is something that has to be dealt with very much in the context of the bipartisan consensus.

Senator LEAHY. I understand, but those who want to continue to advocate military aid to El Salvador may well be advised not to condition it on how far they go in the Jesuit case. Because, I tell you right now the El Salvadoran military and some of the hierarchy have worked very hard to guarantee that nobody of a high level in the Salvadoran military will ever go to trial, be prosecuted, or ever be convicted in that case.

They have guaranteed that. And frankly, Mr. Secretary, I think that as they have done it, they have laughed up their sleeve at us, because they know that the money will keep coming, notwithstanding our threats.

It may not come with my vote, but they feel the money will keep coming, because they hear us make these threats every year. They go out and make a big flurry of activity, arrest a few people, and after a while the case kind of disappears, the evidence disappears. The people involved in investigating get reassigned. And that is the end of it.

I do not mean to debate the aid issue here. We are going to be working on a consensus to find a way out of this problem. But, I have prosecuted an awful lot of murder cases, and I have never seen one where people worked so hard at losing as this one.

Mr. BARTHOLOMEW. Senator, I would just make one point. I do not think the Salvadoran political or military leadership is in any doubt whatsoever of the attitudes of the United States Government where this case is concerned and its importance. That is something that I think that we have brought home to them repeatedly.

Senator LEAHY. Well, if they indeed just throw the case out, if they indeed make an effort to lose it, we could prove to them that we really meant what we said by cutting off aid. If we do not, then they will draw other conclusions.

So, let us see what they do. If they are serious about investigating this case, if they really are concerned about what we are going to do about aid, then they will go out and try to refind that evidence they have thrown away and try to refind those people that they did not interview.

If they do this, then I will stand corrected. If they do not, then they are saying that they do not believe our threats, or they do not care about them.

Mr. BARTHOLOMEW. Senator, I think that I would only underscore that the kinds of questions you and I are discussing are the kinds of questions that are going to have to be resolved in fashioning a bipartisan consensus.

Senator LEAHY. I understand. I did not mean to be spending an inordinate amount of time on that. We will be discussing this with Secretary Baker and others in a bipartisan group. Thank you.

Mr. BARTHOLOMEW. Senator, I was going to finish my opening remarks. I could have mentioned the Andean drug strategy, the Philippines, and Pakistan, in terms of what interests are at stake. But let me just conclude them by making one comment.

We think we have to be very careful in considering reallocating money away from these accounts toward others, to look not just at what is to be gained on the receiving end of the accounts but also

some of the very real risks and costs that would be involved in such reallocations away from such critical national needs.

The last point I would make, Senator, is, and here we may join a philosophical issue that is reflected, I think, in your speech, and that is that we do not see security and democracy and development as antagonistic competitors. Nor do we see military assistance and economic assistance as antagonistic competitors.

PREPARED STATEMENT

We think we have got ample evidence that security is a fundamental framework and a necessary condition for what we really want, which is democracy and development in the world, which in turn, yes, we can say is the ultimate guarantee of the kind of secure, as well as politically pluralistic, world we want to live in. We think we fashioned a program that tries to balance these non-antagonistic but different instruments of foreign policy.

Thank you, Senator.

[The statement follows:]

STATEMENT OF HON. REGINALD BARTHOLOMEW

Mr. Chairman, thank you for the opportunity to address you and the Members of your Subcommittee today on the President's Security Assistance Budget request for FY 1991.

Secretary Baker has cited the five key foreign policy challenges that we as a nation face: promoting democratic values, fostering market forces, promoting peace, protecting the world community against transnational dangers, and strengthening our alliances and other international ties in a time of far-reaching change.

The President's FY 1991 budget request, formulated before many of the most dramatic changes in the world situation had occurred, addresses these challenges in today's more hopeful environment. In this transition year, we will be working to consolidate and further recent foreign policy successes, while guarding against threats to those successes. Our security assistance programs, in particular, are designed to support some of our most basic values, which form the philosophic underpinning of our approach to the challenges I just mentioned.

Protecting and promoting political stability, democracy, and economic freedom in the world has been and will remain a central purpose of US foreign policy in the post-war era.

--We pursue these goals because we as a nation think they are right, and because we think we have a responsibility to espouse the values they represent.

--We pursue these goals because we believe that a world characterized by these values is the best environment for our own security and well-being -- economic, political and social.

Mr. Chairman, in the past decade, in the past year, we have seen these values gain ground with a scope and rapidity that have surpassed anyone's predictions.

--The Soviet Union has begun a wrenching swing towards these values.

--Domestic dictatorship and foreign domination in Eastern Europe are giving way to the emergence of newly democratic and independent states.

--Africa is witnessing a dramatic evolution marked by the emergence of an independent Namibia, the spread of market-based economies over half the continent, and new hope for positive change in South Africa symbolized by the release of Nelson Mandela.

--In Asia, Pakistan, the Philippines and South Korea are building new democracies based on economic freedom and are striving to build firm foundations for political stability.

--Close to home in Latin America, the whole political complexion of the continent has changed through the decade of the '80s toward democracy and economic freedom.

---In 1976, from the Rio Grande to Cape Horn you could count the democratic nations on the fingers of one hand; today the entire mainland is democratic.

---In Panama and Nicaragua, dictatorial governments have been rejected by their peoples and the work of constructing political stability, democracy and economic freedom is underway.

Mr. Chairman, it is true that the world is not yet a perfect place:

--The positive change that is underway is not yet complete. And like all such far-reaching change it brings with it its own uncertainties and stresses.

--There remain regional conflicts and differences in the world that bear importantly on our values and on our strategic interests.

--International drug trafficking threatens the political stability, democracy and economic freedom of the societies caught up in it and the well-being of our own nation.

--And we face new dangers in the proliferation of weapons of mass destruction, not only nuclear but chemical weapons as well, together with the potential spread of missiles capable of launching them on hair-trigger notice.

That said, Mr. Chairman, the whole world can take strong satisfaction and strong encouragement from the stunning progress that has been made toward political stability, democracy and economic freedom and the prospects and opportunities before us. And I believe the American people can and should take special pride and satisfaction in these developments.

The US did not single-handedly bring about the positive developments now underway. But the efforts of the US since World War II have been absolutely critical in creating and maintaining a framework that protects and promotes these values and helps create conditions in which they can thrive. That framework includes:

--Strong alliances, starting with NATO, and close friendships and bilateral relations with key countries around the world.

--Strong military forces at home and abroad.

--Effective bilateral and multilateral foreign assistance programs, including training.

--Encouragement and support for development and the adoption or improvement of economic reform and market economies.

--And persistent efforts to promote East-West dialogue and arms control and peaceful resolution of regional differences around the world.

The focus of this hearing is on security assistance. But the issues you in Congress and we in the Administration must address in reviewing our foreign aid program are part of a larger question we are both wrestling with. Stated broadly, how do we design and adapt our policies and our programs to meet the demands of this newly promising though still imperfect world?

Opinions can and do vary, even within the Administration, on what specifically the US should do in each specific situation. But, surely, there should be a fair degree of

consensus about the broad guidelines that ought to shape our approach. We need to shape our policies to:

--Sustain and further the positive change underway and insure against the uncertainties and difficulties it can bring.

--Deal with the problems that have not changed and new dangers that have arisen.

--Maintain the framework that has been and will remain essential to the positive change we want to sustain and further, even as we adapt the framework itself to the new conditions that are emerging.

--Work in a spirit of cooperation with Congress, while seeking greater flexibility.

Mr. Chairman, these are the guidelines that shape the FY 1991 budget before you.

We believe that the program before you is a solid answer to the question of what the nation can and should do in foreign assistance in FY 1991. As we evaluate the change that has occurred and review our programs measured against new realities and reoccurring problems, our FY 1992 program may look quite different, but it will be guided by the principles I have been discussing.

Against this background, let me outline the major elements of our FY 1991 request.

Europe

Let me begin with a discussion of the assistance package we are requesting for Europe, since the most dramatic political and economic transformations are taking place there. Our request for Europe has two parts: aid for the profound changes underway in Eastern Europe, and continued support for our friends and allies in NATO.

Before turning to my particular responsibility and the focus of today's hearing, I would like to say a few words about our aid to Eastern Europe.

As you know, we have requested $300 million in special economic assistance for the countries of Eastern Europe. As in the programs which we initiated in FY90 in Poland and Hungary, we propose to tailor our aid to the region to fields in which the U.S. has a comparative advantage.

Our aid efforts will focus principally on technical assistance and institution building. There is a critical need for the kinds of skills relevant to managing affairs in a free market system. The first order of business is to encourage policy reforms that would allow these economies to operate on a market basis and to promote investments in the private sector that would make them flourish.

The collapse of Marxism/Leninism has made obsolete existing institutions governing economic and political life alike. To address this vacuum, our program will support democratic institutions, including those that will promote the conduct of free elections and advance political reform through the rule of law.

In assisting Eastern Europe's transition to a free market system, the cooperation of our own private sector will be key.

Our program is designed to encourage substantial private sector involvement. The tools we propose to use to ease the entry of U.S. private enterprise into Eastern European markets range from negotiation of bilateral trade and investment treaties and the granting of most favored nation treatment to establishing eligibility for EXIM, OPIC and CCC guarantees.

Finally, recognizing that the transition to a democratic, market-oriented system may be traumatic, we are prepared to offer a third level of aid, in the form of transitional economic support. In Poland, the U.S. took the lead in establishing a Stabilization Fund which was designed to help the Polish Government's bold efforts to stabilize its economy through a stiff dose of market disciplines. We are also proposing measures to help raise capital to stimulate private sector development. Those measures may be bilateral, as we have proposed through the "enterprise funds" for Poland and Hungary, or multilateral, through institutions such as the European Bank for Reconstruction and Development.

Mr. Chairman, I should note that the provision of U.S. aid to a country in transition is not automatic. We plan to base our aid on the extent to which the recipient is truly taking steps toward the achievement of four objectives in our mutual interest:

--There must be progress toward political pluralism, based on free and fair elections and an end to the monopoly of the Communist Party.

--There must be progress toward economic reform, based on the emergence of a market-oriented economy with a substantial private sector.

--There must be enhanced respect for internationally recognized human rights, including the right to emigrate and the right to speak and travel freely.

--We want a willingness on the part of each of these countries to build a friendly relationship with the United States.

In deciding on the level and mix of assistance that we provide to each individual country, we shall be influenced by their movement toward these objectives.

In looking to support a Europe in transition, we must not neglect the framework that created the conditions which made that transition possible. For more than 40 years, the Alliance has been the central element of that framework of stability in Europe. NATO has advanced positive political change by performing four functions:

--It has maintained a balance of military power that deterred not only war, but also coercion backed by military power.

--It has fostered solidarity among European states, by encouraging new forms of cooperation among its members.

--It has built a strong trans-Atlantic community to the benefit of both the United States and Europe.

--It has been a major platform and principal agent in pursuing East-West dialogue and arms control, moving us from confrontation to cooperation.

NATO needs to continue to perform these functions to remain a force for the consolidation of change and to act as the foundation for further change.

That is the principal rationale for the security assistance programs in the Southern Flank of NATO -- programs which our allies believe they need, and that we think make sense in terms of NATO's purposes. But I wish to emphasize that these programs are important not only in terms of how they help rationalize the Alliance's collective effort, but also in terms of how they fit with the bilateral defense relationships that these allies maintain with the United States -- including the maintenance of military bases. For these reasons, we have requested $1.02 billion in Foreign Military Financing (FMF) and $95 million in Economic Support Funds (ESF) for Turkey, Greece, and Portugal.

Central America

There has been a surge towards democracy in our own hemisphere as well. In March, a freely-elected government in Chile assumed power after nearly 17 years of military rule, and a civilian President assumed office in Haiti. Today, there is only one dictatorship left standing in the Western Hemisphere.

The election of a democratic government in Nicaragua and the restoration of democracy in Panama are of particular significance to our foreign policy interests in the hemisphere. Mrs. Chamorro's election opens the way for fulfillment of the dream of the Central American peace process -- peace and democracy in all the nations of the region. In addition, the return of democracy to Panama - most welcome in and of itself - also cut off an important base to drug traffickers, who have taken center stage as the biggest threat to democratic rule in the Americas.

We have a special role in aiding the return to democracy in this hemisphere. To underscore that role, in January the President sent forward a $500 million supplemental aid request for Panama, and in March he submitted to the Congress a $300 million request for an assistance program for Nicaragua as a supplemental appropriations request for FY 1990. On May 25 the President signed the Emergency Supplemental, which included the full $300 million for requested for Nicaragua and $420 million for Panama.

In addition to the supplemental aid for FY 1990 outlined above, we have asked for a total of $739 million in foreign assistance for the Central American democracies in FY 1991, four-fifths of which is economic aid. Our request will allow us to support the framework for democracy and for lasting peace in the region, represented by the Esquipulas, Tesoro Beach and Tela accords. With democracy clearly in ascendance, we have today an unprecedented opportunity to effect a profound and positive change in this critical region, to contribute to the expansion of regional peace and to the consolidation of democracy.

Anti-Narcotics Programs

In contrast to the positive evolution towards democracy in this hemisphere, one trend is negative. The greatest threat to democratic values and stability in this hemisphere today is the traffic in illegal drugs. In the last decade in Colombia alone drug traffickers have killed over 1,000 public officials, 12 Supreme Court Justices, over two dozen journalists and more than 200 judges and judicial personnel, not to mention the high toll of ordinary citizens who happened to be in the wrong place at the wrong time.

In FY 1991, for anti-narcotics programs with our Andean partners, we are requesting $137 million in FMF and approximately $209 million in ESF. Using the model we have found successful elsewhere in the world, we have formed a mutually beneficial partnership with our Andean friends. As our Andean partners confront the problem in their own countries, they look to us to provide them with appropriate military and economic assistance. Our military assistance supports their maintenance of mobility and other military capabilities essential to anti-narcotics operations. Our economic assistance will help them develop legitimate alternatives to the trade in illicit narcotics and implement other structural adjustments necessary to sustain economic growth.

Pakistan/Philippines

Our stabilizing influence has helped bring democracy to other regions as well. In Pakistan and the Philippines, we have supported the fundamental shift in recent years to more pluralistic and democratic societies. We have embraced this trend and are helping develop the institutions and policies to make it irreversible. It is not an easy task. Both countries face internal resistance to reform, and both have embarked on painful programs to restructure their economies. We must work to foster the broader political stability that will permit these policies to succeed. This will require substantial military and economic assistance.

The Soviet withdrawal from Afghanistan has not brought peace, and final resolution of the continuing violence there will take a long time. A strong and secure Pakistan, able to play a leading role in this process, will be vital to restoring stability to the region.

Our interest in a free and stable Philippines stems from our historic ties to these islands. Continued political and economic progress in the Philippines is threatened by insurgents dedicated to seizing power through violence. Our military assistance program helps the Philippines address this threat. U.S. economic assistance is designed to support the democratic government's efforts to meet its people's economic and social needs. Continued U.S. access to military bases in the Philippines promotes regional stability and protects vital Pacific trade routes.

Our security assistance requests for Pakistan and for the Philippines are designed to enhance security and promote reform in these emerging democracies. For Pakistan, we have requested $228 million in FMF and $210 million in ESF. For the Philippines, we have requested $200 million in FMF and $160 million in ESF, in addition to our requests for development assistance, PL-480 food aid, and $200 million in a special multilateral assistance initiative.

Middle East

Nowhere is the task of promoting democracy and stability more challenging than the Middle East; and nowhere have our diplomatic efforts been more intense to achieve a negotiated solution to a conflict.

We have constructed a process, aimed at a breakthrough in the decades-old confrontation between Israelis and Palestinians, which could then be broadened to an effort to achieve a lasting peace between Israel and the entire Arab world. Both Egypt and Israel have worked hard with us on a framework for an Israeli-Palestinian dialogue in Cairo to

discuss elections in the West Bank and Gaza. As Secretary Baker noted before Congress last week:

--The challenge for all sides is to try to put back on track the process that we had succeeded in bringing so close to success and to create a better environment for peacemaking.

--For Israelis, this means saying yes to the idea of a dialogue with Palestinians.

---We hope that the new Israeli government is willing and able to move forward to such a dialogue, and to do so in a way that makes it possible for a credible Palestinian delegation to participate.

---We're prepared to continue to try to implement the Israeli government's May 14 initiative, but we can't do it alone.

--For Palestinians, this means looking beyond the tragic human losses they have suffered and recommitting themselves to the political process.

---The outrageous attack of May 30 has raised serious questions about that commitment.

---The PLO has to make clear that its policy of renouncing terrorism still stands and it has to do so in an authoritative and unambiguous way.

---So far it has not done so.

--For the Arab states, this means doing more to create an environment that can support Israeli-Palestinian reconciliation.

We need to remain steadfast in our traditional assistance to Egypt and Israel. We are again requesting $5.1 billion in military and economic assistance for Israel and Egypt. That amount represents 61% of our total security assistance request. These funds meet military modernization requirements and contribute to economic stability and other development objectives.

Conclusion

I ask for your support for full funding for the President's balanced approach to the FY 1991 foreign assistance budget. It is the right response for today, one that carefully nurtures positive change, deals with continuing problems, and strengthens the framework that will ensure stability during this time of transition. Thank you.

STATEMENT OF HON. HENRY S. ROWEN

Senator LEAHY. Secretary Bartholomew, I do not in any way question your intent and your dedication to those goals, which I applaud and agree with. Sometimes we may disagree on the mechanics of getting there, but I know that you feel very strongly about that, and I join you in that feeling.

Now we will go to Assistant Secretary Henry Rowen. We are glad to have you here, Mr. Secretary.

Mr. ROWEN. Thank you, Mr. Chairman. I want to speak very briefly. As you have said in your comments a few moments ago, the world has seen in the last 12 months many changes, enormous changes. Most of these changes are very good ones, some of them spectacularly so. The political character of Eastern Europe has moved decisively toward more democratic forms. Militarily, the Warsaw Pact is effectively finished. Economically, most of these countries are pushing hard to become market-oriented economies.

And elsewhere the Soviets withdrew troops from Afghanistan, cut forces along the Sino-Soviet border, and removed aircraft from Cam Ranh Bay. In Africa, the Cubans are coming out of Angola. In Latin America, the Sandinistas lost the election in Nicaragua. Noriega is awaiting trial. And there were free and fair elections in quite a few countries. And that is a lot of good news.

However, today's world is in transition and it is full of uncertainties and potential for instability. No one knows what is going to happen in the Soviet Union. That country remains a formidable military power with thousands of nuclear warheads. Many of these are targeted at the United States.

In Europe, from a military perspective, not all of the NATO countries benefit equally from the virtual collapse of the Warsaw Pact. Turkey, which has a common border with the Soviet Union, is next to a particularly turbulent part of that country and benefits less than others—members of NATO—do, for example.

In East Asia, Soviet military power is little changed toward Japan. North Korea continues to be a threat to the south and is now engaged in its own nuclear program. In Southwest Asia, the tension between India and Pakistan and between Iran and Iraq threatens regional stability. In fact troubles in that region threaten our growing need for Persian Gulf oil.

In the Middle East, the relationship between Israel and several of the Arab States is an ongoing worry.

In Central America the economies are weak, the democracies are fragile and the narcotics trade is violent.

And another major concern to us is the proliferation of advanced weapons, including nuclear, chemical, biological, and missiles. Many Third World nations now have these technologies and have used them against each other, as in the Iran-Iraq war.

As we are trying to manage what we hope will be a transition to a more stable and peaceful world, military assistance plays a number of roles. I can sum up the benefits we receive in three words: Access, presence, and influence. These have served our national interests very well in the last four decades, and we are now getting large payoffs from having stayed the course.

However, even if, as we all hope, the Soviet Union turns into a model pluralistic democracy, most of our needs for military assistance will remain because most of them have little or nothing to do with the Soviet Union, as Secretary Bartholomew has just said. Our interests in Arab-Israeli relations will remain, quite independently. So is our interest in access to Persian Gulf oil. So is our stake in a stable East Asia. So is our interest in consolidating democracy in Central America and fighting the drug war in the Andean region. None of this has anything to do with the Soviet Union.

This is not to argue that there should be no changes in our military assistance strategy. We need to rethink our aims in this rapidly changing environment, and this process is underway, both here on Capitol Hill and in the executive branch. But should we deeply cut our military aid at this point in this transition period? And I would say no. I have touched on the many uncertainties and dangers abroad. We have ongoing programs with recipient countries, and we need to keep the commitments we have made to our friends.

PREPARED STATEMENT

Basically what we are asking for is continuity and flexibility. We are making a transition to a new era and it should be an orderly one. Thank you, Mr. Chairman.

Senator LEAHY. Thank you very much, Mr. Secretary.

[The statement follows:]

STATEMENT OF HON. HENRY S. ROWEN

Good morning. Mr. Chairman, thank you for your invitation to testify on the subject of military assistance in the 1990's. In the interest of time, I will speak briefly on the political and military environment in the world, and will introduce General Brown of the Defense Security Assistance Agency who will address the issues in greater details.

In the last 12 months, we have seen a lot of changes around the world, especially in Eastern Europe and the Soviet Union. Most of these changes are good, some spectacularly so. The political character of Eastern Europe has moved toward more democratic forms. Militarily, the Warsaw Pact is effectively finished. Economically, these countries are pushing hard to become market-oriented economies. Elsewhere, the Soviets withdrew troops from Afghanistan, cut forces along the Sino-Soviet border, and removed aircraft from Cam Ranh Bay. The Cubans are coming out of Angola. In Latin America, the Sandinistas lost the election in Nicaragua; Noriega is awaiting trial in the United States; and there were free and fair elections in quite a few countries. That's the good news.

However, today's world in transition is full of uncertainties and potential for instabilities. No one knows what will happen in the Soviet Union. The Soviet Union remains a formidable military power with thousands of nuclear warheads—many are targeted at the United States. In East Asia, Soviet military power is little changed. North Korea continues to be a threat to the South and is now engaged in its own nuclear program. In Southwest Asia, the tension between India and Pakistan, and between Iran and Iraq threatens regional stability. Tensions there threaten our increased need for Persian Gulf oil. In the Middle East, the relationship between Israel and the Arab states is an ongoing concern. In Central America, the economies are weak, the democracies are fragile, and the narcotics trade is getting more violent.

Another major concern to us is the proliferation of advanced weapons including nuclear, chemical, biological, and missile weaponry. Many Third World nations now have these technologies and have used them against each other, as evidenced in the Iran-Iraq war.

THE ROLE OF MILITARY ASSISTANCE

As we attempt to manage what we hope to be a transition to a more stable peaceful world, military assistance plays many roles; however, I can sum up the benefits we receive from our military assistance program in three words: Access, presence, and influence. These benefits have served our national interests very well in the last four decades. We are now reaping benefits from having stayed the course. Moreover, if—as we all hope—the Soviet Union turns into a model pluralistic democracy, our needs for security assistance will remain because most have little to do with the Soviet Union. In that optimistic picture, our interests in Arab-Israel relations, including the peace process, will remain; so will our interest in access to Persian Gulf oil; so will our stake in stability in East Asia; so will our interest in consolidating the future of democracy in Central America and fighting the drug war in the Andean region.

Nevertheless, I believe that we need to rethink our basic rationales for military aid in this rapidly changing environment. This process has started both here on Capitol Hill and in the executive branch. Should we deeply cut our military aid at this point? No. I have outlined the uncertainties and dangers that affect our security interests around the world. We also have ongoing programs with recipient countries; we must keep the commitments made to our friends when we needed their help most.

In conclusion, Mr. Chairman, during this period of shrinking budgets, we don't expect a real increase in funding; we are merely asking for flexibility and continuity. As we are making a transition to a new era, it is important that we make it an orderly one.

Now, I would like to take this opportunity to publicly commend the next witness, General Brown, for the outstanding leadership he has provided to the Defense Security Assistance Agency. General Brown will retire later on this summer and we will miss him. Thank you.

STATEMENT OF LT. GEN. CHARLES W. BROWN

Senator LEAHY. A vote has started. But I think we could begin on General Brown's statement.

I would like to note for the record that General Brown has served with great distinction in his role at DSAA. He and his office has been extremely helpful to this committee and I think to all committees up here in the Congress. With the number of phone calls coming in down there he probably feels that there are days when he has all 535 Members of Congress calling with one question or another. He has been unfailingly cooperative throughout.

I know that you will be retiring soon, General, but I for one am delighted that you have served where you have. You have been an absolute credit not only to your uniform but to the U.S. Government.

General BROWN. Thank you, Mr. Chairman. I appreciate that truly.

It is a pleasure to be here today—for the last time, I might add—to testify again on security assistance. I have submitted a detailed set of remarks for the record. My oral statement today will focus mainly on base rights and access issues, implying of course, our ability to project power into the future.

Since our last budget request the world has changed drastically. Unfortunately, despite the progress in the Soviet Union and elsewhere, we see continuing instability and conflict in much of the developing world. There are many regional, ethnic, and national antagonisms around the world for which the Soviets are not responsible. Furthermore, we are facing dangers from the proliferation of nuclear, biological, and chemical weapons and, of course, the associated ballistic missiles.

In our haste to accommodate the new environment, the United States cannot return to isolation. We are now truly the world leader and we are always going to need allies and friends. The network of base and access rights we have built up in the postwar era, both to contain Soviet power and for other regional concerns, should not be thrown away lightly. Even if for argument's sake, the Soviet Union completely ceased to be a threat, we would still want the flexibility that access to overseas facilities gives us.

Finally, we must remember that our carefully regulated military sales to friends and allies contribute strongly to our defense industrial and technological base, giving us the qualitative edge we will always need.

With these considerations in mind, I turn to our request for military assistance in 1991. The administration's request may appear to be nothing more than a straight line continuation of last year's request, which I think you have remarked upon. There are several reasons.

First, we had sound programmatic reasons for the vast majority of specific country allocation requests. Ongoing modernization programs and the sustainment of existing equipment are critical and cannot easily be reversed on short notice. The United States Government has substantial ongoing and soon to be started modernization programs with a number of important allies, including Turkey, Portugal, and Pakistan, as well as Israel and Egypt. And some of these programs will continue into the mid-1990's.

We are in a period of transition and the 1990's could see increased regional instability. As we reduce the size of our Armed Forces and reduce overseas deployments, we will be relying more on our allies' and friends' ability to defend themselves. Now is not the time to degrade that ability.

We are asking for $545 million for Turkey. Turkey is in the middle of one of the world's most dangerous regions, sharing borders with Iraq, Iran, and Syria, as well as the Soviet Union. Turkey provides important bases and facilities that will continue to be critical. When you look at the potential for a variety of conflicts and chronic instability in this region, especially in the Soviet Union, one is struck by the fact that Turkey could well be the most stabilizing force in that area.

We are requesting $228 million for Pakistan. This assistance will help in their modernization and help the government in their democratization process.

Portugal is also another very important area to us. When you go beyond the NATO mission, it is very important for allowing us to transit to the Middle East and Southwest Asia, as well as provide antisubmarine and sea control operations. There is no substitute in the Atlantic for that area. These bases are extremely important to us and I bring them to your attention.

Yes; Mr. Chairman, we are in a time of transition. I believe that in these times of historical change we have a responsibility to preserve the stability we have worked for all these years. Our military assistance will continue to play a key role in managing world peace and stability in the years to come.

We cannot know the final outcome of events in the Soviet Union and their implication for regional conflict. But we can prepare our-

selves and our friends to manage uncertainty and to deter or combat conflict. We recognize that fiscal constraints limit our abilities. We do not ask for increases over last year's request. But we do ask for flexibility.

PREPARED STATEMENT

Mr. Chairman, since this is my last opportunity to appear before you, let me be a bit philosophical. I know of your interest in farming, and so you will understand this analogy. Having been raised on a cattle ranch, I can vividly remember my father telling me that you can sell off a herd of cattle in 1 day, but it takes years to build it back up. During this time of transition, let us take a little time and find out just where these dynamic changes are taking us.

Thank you, sir.

[The statement follows:]

STATEMENT OF LT. GEN. CHARLES W. BROWN

Mr. Chairman, it is a pleasure to be here today to testify on security assistance. I look forward to working with you throughout the Congressional consideration of the President's budget request and legislative proposals.

THREAT TO AMERICAN INTERESTS

Mr. Chairman, we have all been hearing a great deal about how much the world has changed in the last six months. I want to tell you how much has not changed. I want to explain why we still need military assistance for our friends and allies--in some cases more so than ever. The welcome trends in the Soviet Union have not transformed the security situation everywhere. The Middle East is as dangerous and unstable as ever. Nor has the situation in Asia changed dramatically. The security situation in the Pacific and elsewhere in Asia is much more complex than in Europe.

We must ask ourselves whether the undeniable changes that are taking shape will necessarily make a safer world, or a world with new and different threats? Unfortunately, despite the progress in Eastern Europe, the Soviet Union and elsewhere, we see continuing instability and conflict in much of the developing world. There are many regional, ethnic and national antagonisms around the world for which the Soviets are not responsible. Conflicts like the Iran-Iraq war, or continuing insurgencies in places like El Salvador and the Philippines, are regional in origin.

Furthermore, we are facing new dangers from the proliferation of nuclear, biological and chemical weapons and ballistic missiles. As Secretary of State James Baker has said,

> the spread of missiles and chemical weapons throughout volatile regions [means that] conflicts in the Third World are likely to take on a more dangerous character. Regional conflicts are likely to be more difficult to contain, more likely to engulf more countries, and more susceptible to escalation.

Just recently, this statement was dramatically illustrated when Iraq's Saddam Hussein boasted of his ability to destroy half of Israel with his newly acquired missiles and chemical weapons.

The possibility of a Soviet threat has not entirely vanished. While the conventional threat to Europe has apparently diminished, large-scale Soviet or allied Communist Party aid continues to flow to North Korea, Cuba, Libya and Afghanistan. At this point, we cannot afford to assume that change in the Soviet Union will necessarily proceed in linear fashion towards democracy. Ethnic unrest in various constituent republics of the USSR could affect its role as cooperative peacemaker in other areas. This is another element of instability which could have important implications for our friends and allies near to or bordering on the Soviet Union. We should also not ignore the possibility of a Russian nationalist backlash against current policy, or even the breakup of the Soviet Union itself.

The problem is that we really do not know how this new world will take shape, except that it will not be the same old bipolar world of superpower antagonism. In the world now taking shape, the only constant we can assume is uncertainty. The question is, in this new situation, what is the role for security assistance?

OBJECTIVES

The United States cannot return to isolationism. We will always have an interest in actively promoting global economic and political stability. We will always need friends and allies. Therefore, in a time of decreasing military budgets it is even more important that our friends and allies be strong and able to defend themselves and keep regional peace. It is far better for us, and for the world, if we can help friends and allies defend themselves, rather than use American armed force.

We cannot, in this dynamic period, foresee all the potential threats to American interests. The network of bases and access rights we have built up in the post-war era both to contain Soviet power and for other regional concerns should not be thrown away lightly. Even if--for argument's sake--the Soviet Union completely ceased to be a threat, we would still want the flexibility and influence that access to overseas facilities gives us. The utility of power projection capabilities in a world full of states armed with missiles and chemical and even nuclear weapons is incalculable.

We do not know what instabilities might be unleashed following a rapid withdrawal from world responsibility by the U.S. Many recent world conflicts have been resolved and many countries are better able to defend themselves, thanks to U.S. aid -- both military and economic. But continued U.S. participation in many areas is still necessary. Our overseas presence and assistance often are important in calming regional antagonisms. Indeed, many of our friends and allies in the Pacific, Europe, the Middle East and elsewhere have communicated their fear of the consequences

of American withdrawal. U.S. security assistance helps promote stability, by helping countries feel more secure. This is particularly important in regions where one country's acquisition of sophisticated weaponry threatens the military balance, tempting other countries to do the same.

We also believe that we can have a positive influence on the countries we assist. Promoting democracy, human rights and nation-building is desirable for its own sake. If the United States cuts relations with Third World militaries, we lose all influence with those militaries, which remain strong, if not the strongest, institution in many countries. In many of these countries the military is the only effectively functioning modern institution, often with a disproportionate concentration of technical and engineering skills. They are a critical part of nation building. Security assistance is essential to maintain the ties and influence needed.

Finally, we must remember that our carefully regulated military sales to friends and allies contribute strongly to our export base. As domestic defense procurement diminishes, foreign sales become more important to maintain reasonable unit costs, sustain production lines and preserve jobs in key high-technology industries -- all important contributions to our ability to mobilize should the need arise. As you know, almost all our security assistance monies are spent here at home and, together with sales, contribute directly to the domestic economy. Declining defense budgets and smaller production runs certainly raise the relative importance of foreign sales. In an era where international trade will become ever more important for U.S. industry, we cannot afford to ignore the part played by a

healthy defense industrial base in enabling us to maintain our high-technology base. Here, trade aspects begin to interlink into the defense industrial and defense technology base that are important to our continued national security.

With these considerations in mind, I turn to our request for security assistance in 1991. Recognizing the budgetary and fiscal realities that limit our abilities to deal with every problem, our total request for FY 1991 is $5,016.9 million--$53.5 million less than last year's budget request.

There have been problems over the last several years in managing security assistance programs because of the differences in priorities between the Administration and Congress and the narrowing flexibility available to the Administration. Over the years, as funding for security assistance has declined, the levels of congressional earmarking have increased. But the world has changed. It does not serve the best interests of U.S. foreign policy to lock up all but tiny percentages of security assistance funds in earmarks. In an uncertain world we need more flexibility, not less.

The argument that many of the earmarks essentially duplicate Administration request levels is correct only in the context of the total requested. What it overlooks is proportionality. That is, Administration requests for individual countries are not made in a vacuum but are consistent with the overall level of the account. High levels of earmarking within a reduced overall appropriation have forced us to zero out numerous countries while drastically reducing others. This is wasteful and disruptive of carefully nurtured relationships. Often, the

affected countries can no longer maintain U.S. - supplied equipment. As a result, our original investment in their defensive sufficiency is effectively wasted. Secretary of State Baker has stated that while no earmarking at all would be the best solution, an agreement to shave earmarks, or to provide a flexibility fund, would also be acceptable. I agree, and urge you to support that new approach to the earmarking problem.

FY 1991 BUDGET

The Administration's request for FY 1991 may appear to be nothing more than a straight line continuation of last year's. It might well be asked, why do the numbers not reflect appreciation of these new realities? Why have priorities not been shifted? There are several reasons:

We have sound programmatic reasons for the vast majority of specific country allocation requests. Ongoing modernization programs and the sustainment of existing equipment are critical, and cannot be reversed at a moment's notice. The U.S. government has substantial on-going and soon-to-be-started contracts and modernization programs with a number of important allies and friends. Some of these programs continue into the mid-1990s.

A military relationship cannot be based on words alone; there must also be programmatic substance. Cooperative military assistance planning cannot be done one year at a time. The nature of military programs requires multiyear contracting. Training and support for major weapons programs, and setting up national infrastructure to integrate new equipment also frequently take several years. As a result, funding requirements are typically phased over several years. Effective planning, on the other hand, has to be done up-front.

Finally, these are, for the most part, minimal programs for minimal conventional deterrence. That is, they provide the recipients with the means to deter against a variety of possible threats to their stability and sovereignty. As previously mentioned, the 90s could see increased regional instability. As we reduce the size of our armed forces and reduce overseas deployments, we will be relying more on our friends' ability to defend themselves. Now is not the time to degrade that ability.

TURKEY We are asking $545 million for Turkey. Turkey is in the middle of one the world's most dangerous regions, sharing borders with Saddam Hussein's Iraq, Iran and Syria as well as the Soviet Union. Turkey is a pro-Western, non-fundamentalist Moslem state. While the threat of a Soviet assault has decreased, internal nationalist and ethnic strife in the southern Soviet Union poses the threat of additional regional instability and complications with other powers in the area. Turkey is an anchor of stability in the region and provides bases and facilities that will continue to be critical to U.S. security interests in maintaining the stability we have achieved to date.

However, the Turkish armed forces are seriously underequipped, and require much more money than we are in a position to provide. Nevertheless, it is important to sustain our level of assistance for Turkish force modernization. The key programs are jointly funded F-16s, M-48 tank upgrades, and the Track II frigate. We are suggesting an increase of $45 million dollars over FY 1990.

We are requesting $228 million for Pakistan, $2 million less than last year. Our assistance program will help Pakistani modernization as well as provide a tangible demonstration of support to Benazir Bhutto's government as

it continues the difficult democratization process following years of authoritarian rule. Our assistance also helps to reassure Pakistan's military, lessening the danger that they will feel compelled to turn to China or Iran, or even to nuclear weapons to ensure its security. As you are well aware, support to the Afghan resistance would not have been possible without the help of Pakistan. However, conflict in Afghanistan has not ceased with the Soviet withdrawal. The Soviets continue to pump massive quantities of arms to the Najibullah regime, including the Afghan missiles that continue to land inside Pakistani territory.

PHILIPPINES This year, as last year, we are requesting $200 million for the Philippines. As you know, the U.S. government pledged "best efforts" in 1989 to obtain $400 million in military assistance as part of negotiations on our base rights in the Philippines. As a result of earmarking and funding reductions we were only able to allocate $140 million for FY 1990. Even our FY91 request of $200 million will still fall short of the total $400 million "best efforts" amount by $60 million. These funds are necessary to purchase support, training, maintenance and new equipment to combat the anti-democratic insurgency. It is important to the success of Philippine democratic institutions and President Aquino that our "best efforts" pledges not be vitiated. Furthermore, we cannot afford to undercut the negotiations currently underway for renewal of the Military Bases Agreement. These bases, at Subic Bay and Clark field, along with other available facilities in the Philippines, provide unique advantages to U.S. Pacific forces and are a key component of our power projection capability. Alternative facilities would be either cost

prohibitive, less politically suitable, or less well-located strategically.

PORTUGAL Portugal, like Turkey, is another firm ally to whom we have prior commitments to support modernization. Lajes air base in the Azores is a critical asset for U.S. force projection. The Portuguese have been very cooperative in the past in allowing U.S. use of Lajes air base for transit to the Middle East and Southwest Asia as well as anti-submarine and sea control operations. It is also a vital staging point for resupplying forces in Europe. The flexibility these facilities give us becomes even more important with anticipated reductions in overseas forces. There is no geographically satisfactory alternative in the Atlantic.

As with the Philippines, we have been forced to come up short in 1990 on "best-efforts" pledges made to the Government of Portugal as part of base-rights renegotiations. It is important that we not do this two years running, or we risk seriously complicating negotiations for a new agreement. Portugal is the second-poorest NATO nation after Turkey, and the $125 million is needed to establish modern Portuguese air defense and anti-submarine warfare and to support mobility, communications, combat support, anti-armor and program management capabilities.

We are requesting a total of $137 million for Andean nations and another $9 million for other, principally Caribbean countries, with narcotics, and in some cases, related insurgency problems. This total request of $146 million is a $15 million increase in military assistance funding for these countries over FY 1990 and reflects the FY 1990 shift in funds from Defense to Foreign Assistance. We

believe that increased funding is absolutely necessary for a number of reasons. The staunch resolve of Colombia's Barco government has begun to turn the tide against the cocaine cartels. Our assistance is needed to help Colombia continue to fight both them and related insurgencies. The proposed $58 million will provide much-needed helicopters, spare parts, vehicles, weapons, ammunition and other vital supplies to the Colombian armed forces. We propose $39 million for Peru, which faces a similar situation. We are requesting $40 million as well for Bolivia, another Andean nation with extremely limited resources. FY 1990 budget constraints and earmarking did not permit us to fund other states with severe narcotics problems such as Ecuador, or many of the island nations of the Eastern Caribbean. These countries need and deserve our assistance in the joint struggle against the narcotics traffic.

We are also requesting funding to restore other small, but nevertheless valuable programs in Latin America, Africa and Asia that had to be dropped in FY 1990. Such small programs bear fruit in terms of good will, contacts and influence, that far exceed the dollar amount.

IMET We propose $50.5 million for the International Military Education and Training program (IMET), four million less than last year's budget request. The reduction reflects the Administration's efforts to ramp down assistance to certain high-income countries.

IMET has been widely recognized as our most cost effective foreign assistance program. IMET is a people program that establishes valuable personal relationships and communication with foreign military personnel, many of whom rise to prominent positions within their countries. IMET

students return to their countries having been exposed to our American military ethos of professionalism and respect for civilian authority, as well as to American democratic institutions and national values. Many retain a respect and admiration for the U.S. which, though difficult to quantify, often proves invaluable for later relations and even in contingencies. Those who criticize the number of countries participating in the program on the grounds that too many are small, poor and face no discernable military threat miss these key points. Furthermore, in many of these countries the military is one of the only functioning modern institutions. IMET provides technical training and an education in military professionalism that help these militaries play significant, productive roles in nation-building. Finally, these smaller countries represent less than 20% of the students and total annual IMET appropriations. These issues are addressed in detail in studies prepared for this committee by DSAA and the GAO.

This committee has in past years expressed concern about IMET for "advanced, industrialized" nations. We agree that countries with the ability to do so should pay travel and living allowances (TLA). In FY 1990 a number of countries did "graduate" from IMET. However, the legislated threshold was so low that countries such as Gabon or Trinidad and Tobago were included.

Two countries that could legitimately be classified as "high income" now participate in IMET: Austria and Finland. IMET funding--though not TLA--for these countries is important. Austria and Finland are key neutrals with whom it is important to maintain the military professional contacts and influence that IMET can provide. Finland, in addition, is an major participant in UN peacekeeping forces,

while Austria provides us free slots in their peerless alpine training school.

Countries should not be cut indiscriminately, simply on the basis of national income. IMET is not a gift--we reap tremendous benefits in terms of military relationships and access. However, there are some high-income countries that have benefitted considerably from IMET--to the point where the marginal benefit of continuing to train their personnel at the same rate is decreasing. Therefore we last year began trimming IMET allocations to Korea, Spain and Greece. This started to take effect in FY 1990. This year we are proposing an additional trim for these three totalling $650,000 over FY 1990 allocations. Over half of this sum would go to aid priority narcotics and drug interdiction countries, with the rest going to Third World nations that have been hardest hit by recent funding restrictions.

CONCLUSION

Mr. Chairman, I believe that in these times of historic change we have a responsibility to preserve the stability we have worked for all these years. Our policy was not simply anti-Soviet, but aimed at promoting democracy and prosperity worldwide. Security assistance was then and is today a vital part of U.S. national security policy. It will continue to play a role in managing global peace and stability in years to come. We cannot know the final outcome of events in the Soviet Union and their implications for regional conflict and world peace. But we can prepare ourselves and our friends to manage uncertainty and to deter or combat regional conflict. I recognize that fiscal constraints limit our abilities. We do not ask for increases over last year's request, but we do ask for flexibility. The proposed budget represents adequate levels for Security Assistance in 1991. I urge you to support it. Thank you.

MILITARY AID TO EL SALVADOR

Senator LEAHY. General, I appreciate your philosophical closing. I know that you picked the metaphor carefully.

We will stand in recess for a couple minutes while I go and respond to this rollcall vote and I will be right back.

[A brief recess was taken.]

Senator DECONCINI [presiding]. The chairman has authorized me to proceed, and in his absence, I will move on to questioning.

Mr. Secretary, let me address some questions to you regarding El Salvador. I have generally supported the administration's military assistance program to El Salvador. But each vote I cast becomes more troubling as I learn more and more about human rights violations.

One of the major reasons used by the administration for continuing its military assistance is that it has been used to reform the Salvadoran army and to train it in professional tactics and respect for human rights. It is generally believed that without United States assistance to the military in El Salvador, we would lose the influence that we have in controlling excesses which may be committed by the Salvadoran Armed Forces.

While there was an improvement in the human rights abuse and death squad activity during President Duarte's term, recent reports during the last part of his term and the present administration show that this policy of U.S. influence leading to moderation has been a failure.

The Miami Herald of May 22, 1990, announced the release of a report compiled by the arms control and foreign policy caucus, which claims that human rights abuses have been documented by forces under the command of 14 of the 15 officers, including Army Chief of Staff Colonel Ponce and others, and that 11 of the 14 officers received U.S. training.

The report, entitled "Barriers to Reform: A Profile of Salvadoran Military Leaders," paints a pretty grim picture. The Herald states that killing of civilians, often people in custody, were documented under 12 of the officers. Prisoners were reported tortured or abused under 12 officers, and 10 of the 15 commanders appeared to have falsified reports or commanded troops to falsify reports.

I wonder what bearing this habit of falsifying reports has on the delay in the investigation of the murders of the six Jesuit priests, their housekeeper and her daughter. Are the facts stated in the report—or have you had a chance to see it, Mr. Secretary—presented by our colleagues, Senator Hatfield, Representative Berman, and Representative Miller, accurate?

Have these Salvadoran officers, especially ones which have received United States training under our program of military assistance to El Salvador, actually committed these atrocities or allowed them to occur?

Mr. BARTHOLOMEW. Senator, I have not seen the particular elements that you are educing there.

Senator DECONCINI. Let me hand you this article. I hesitate to rely on a newspaper for the factual information, however, the information was taken from a report that our colleagues have released.

Mr. BARTHOLOMEW. I would be happy to look into it and get back to you on it.

[The information follows:]

EFFECTIVENESS OF IMET IN EL SALVADOR

I, too, am hesitant to rely on a newspaper for factual information, and believe that the conclusions reached in this report may be oversimplified.

Military organizations are a very important part of many governments; this is certainly true in El Salvador. It is invaluable to have their personnel get first hand exposure to the American way of life, including United States regard for democractic values, respect for individual and human rights, and belief in the rule of law. We have found, over the years, that one of the best tools we have for introducing foreign military personnel to American values is through the Individual Military Education and Training [IMET] Program. In this regard, we welcomed the GAO's generally favorable review of the IMET program in its recent report.

The tragic situation in El Salvador is truly a hard test of our ability to encourage those values. Nonetheless, we remain convinced that our policy bolsters the center against violent extemists of the left and the right. IMET is a key component of that policy.

EL SALVADORAN MILITARY

Mr. BARTHOLOMEW. Let me just say a few words on the basic question of the connection with the military. We have made our aid dependent on and designed to encourage human rights, the rule of law, designed to bolster the moderate center against the extremists of either side. The situation is not what we want there. We have made that very clear. We have made very clear the importance we attach here to active pursuit of the Jesuits' case that is underway, and the bearing that could have on our attitude toward that situation.

Let me simply say as I did with Senator Leahy before you arrived, Senator DeConcini, that the administration has now accepted the concept of conditioning of assistance. And what we want to do now is to pursue this effort to build a bipartisan consensus, the Secretary working with the Congress here. A bipartisan consensus on our assistance, on its objectives, so that we are speaking, the United States is speaking with one voice. And we would like to see a consensus of policy, as I told Senator Leahy earlier, that reflects on the one hand, yes, our support for El Salvador. But also, yes, our serious concerns about the handling of some of these key cases.

Senator DECONCINI. Well, Mr. Secretary, it is encouraging to hear that. Does that go so far as to make it very clear that if things do not improve, the aid may be terminated?

Mr. BARTHOLOMEW. Senator, I hope you will understand if I say that we think the building of this consensus is something that has to be handled very carefully with Secretary Baker in the lead working with the leadership. I would not want to get into the specific terms and dimensions of it. I take note of what you are saying.

Senator DECONCINI. I can appreciate your not wanting to perhaps respond because of the uncertainty. Maybe I should only speak of myself, but I can tell you that I sense a movement here of those who have supported the administration's full funding in El Salvador of withholding that support in light of recent developments. Perhaps the view of one Senator on this committee who is not the chairman is not going to make any difference, but I have the feeling, Mr. Secretary, and I tell you this with the greatest re-

spect of your superior, Secretary Baker, that I feel this thing slipping away. I hate to see that happen. I recall when President Reagan sent then-Vice President Bush down to see Duarte's predecessor. He left a list of names there of people who our Government had compiled regarding the death squads. I happened to visit him about 2 or 3 weeks later, and he showed me the list that the Vice President gave him, and I was familiar with a couple of those names. He said that the then-Vice President Bush was very forceful, saying that if you don't do something about these—I think there were 11 people on the list—your aid is going to be in jeopardy. I do not know how else to tell you this. I just hope that it is a similar forceful attitude that you and those who are negotiating will take. I hate to see that happen, but I do not know how else we are going to get their attention. It must be clear to them what is hanging in the balance here.

Mr. BARTHOLOMEW. I hear what you are saying, Senator, and obviously the sentiment and outlook that you are reflecting or reporting here is something that is going to have a bearing on the fashioning of a bipartisan consensus.

JESUIT CASE

Senator DECONCINI. Senator Graham of Florida and I were in El Salvador in December, a very tense time. We met with the Chief of Staff, Mr. Ponce, for a briefing on the Jesuit case. It sounded to me like they were going to go ahead with a full-blown investigation; no holds barred. President Cristiani said he welcomed international assistance with the investigation. At the time, he had two investigators from Spain who were in the country. He said that Margaret Thatcher had promised to send investigators as well. I asked him if they would seek international help to give the investigation credibility, and reassurance that they are indeed being totally thorough. Mr. Cristiani said, yes, he would welcome that. I know of nothing like this happening since then. Do you know of any international observers who are helping with the investigation to help bring credibility or to discredit, if necessary, the investigation of the Jesuit priests' murders?

Mr. BARTHOLOMEW. Senator, I do not, myself, but let me check that to see what more I could provide you.

[The information follows:]

OVERSIGHT OF JESUIT KILLING INVESTIGATION

There are no international observers—if you mean foreign governments—overseeing the investigation into the Jesuit priests' murder. The Spanish and British initially sent policemen to assist, but their work has been completed. Nonetheless, the investigation is being monitored closely on several levels.

The first of these is our own Embassy in San Salvador. Our Embassy continues to monitor developments and to stress to the government of El Salvador the importance of the case to continued U.S. support for El Salvador. We have been in daily contact with investigative and judicial officials, suggesting leads. We even offered to address the judge's security concerns, an offer that was declined.

In addition to our Embassy, the case is being closely watched by a number of human rights' groups such as the Lawyers' Committee for Human Rights, and Amnesty International.

MONITORING DEVELOPMENTS

Mr. BARTHOLOMEW. Let me simply say that the point that I would like to underscore is that in all of our contacts, starting with the Embassy—it is almost a daily contact on this business monitoring developments—we just never cease to stress to the government down there the importance of this case to continued United States support to El Salvador. This is something that we hammer at on a regular basis. And there are the problems that you cited, and we go after them when we see them.

Senator DECONCINI. Well, Mr. Secretary, would you give consideration to urging the Cristiani administration to seek some international investigative participation, other than the United States? They should come in to monitor and not do a side-by-side investigation but their independent observance of the legitimacy of the investigation.

I propose this, because I think it is the only way that I can find credibility in the investigation when it is over. If the FBI, which has helped with the investigation, is the only outside authority except for two inspectors from Spain that were hardly there for a week, I fear that the investigation handled by the Salvadoran military and civilian judge that has been appointed to do it, is not going to be very credible. I may be wrong, but that is what I am fearful of.

Mr. BARTHOLOMEW. Senator, let me take that back and talk to people about it.

Senator DECONCINI. Mr. Chairman, I have other questions.

Senator LEAHY [presiding]. Go ahead.

Senator DECONCINI. Thank you, Secretary Bartholomew. I appreciate your willingness to look into it, because I am concerned that support for the Cristiani government is eroding very, very rapidly here on the Hill. However, I only speak for this Senator from Arizona.

COMPUTERS TO ISRAEL AND SAUDI ARABIA

Let me turn to the subject of aid to Israel. It is my understanding that the United States has approved the export of the Cray supercomputer to Saudi Arabia, yet is delaying approval of a similar supercomputer for Israel. Is this correct? Further, the United States is committed to maintaining Israel's quantitative edge. This is widely viewed as the reason why the Arab States have not attacked Israel. Can you comment on whether or not this is accurate, and, if so, why?

Mr. BARTHOLOMEW. Senator, we export supercomputers to a number of countries in the world including in the past Saudi Arabia, yes, and to Israel itself, always under very, very strict procedures concerning the potential uses to which these computers can be put. That involves questions of security programs to assure that they are not diverted to unauthorized uses. It includes assurances from the governments that are concerned, and we look at it particularly from the standpoint of nonproliferation and the role of supercomputers in potential nuclear and missile——

Senator DECONCINI. Can you comment on the Cray supercomputer to Saudi Arabia versus——

Mr. BARTHOLOMEW. Let me simply say that the process that is involved is long, complicated, and vulnerable to delay. And I for one will say that I would like to see it be more pointed—as a process, more pointed and expeditious. And I am trying to work on that. But in fact we are working on the question, on the case that you raise as well as a range of others and simply have not reached a decision point where it is concerned.

Senator DECONCINI. If I may interpret your answer. What I hear you saying is that it is now under consideration for the Cray supercomputer to also be permitted to be exported to Israel. Is that what you are saying? Has it not been decided yet?

Mr. BARTHOLOMEW. Senator, the only reason I am hesitating is I am not sure to what extent we speak publicly on such matters. But let me say that I think we can say we have a range of computer cases, including some to Israel and to a number of other countries, that are under consideration at this point.

Senator DECONCINI. I do not have the news story here, but I read a news story—again, not saying that it is entirely accurate—regarding this. My recollection is that the news story said the United States Government had approved the Cray supercomputer to be exported to Saudi Arabia and that it had, as of the date of the article, not done so with the Israeli Government. My only question is, is that statement I just made accurate?

Mr. BARTHOLOMEW. Well, it is, but as I say, it is accurate as a reflection of when we received the applications and the requests for each of these.

Senator DECONCINI. That is right. I understand.

Mr. BARTHOLOMEW. It is not accurate as a statement of precedence or policy.

Senator DECONCINI. Are you not saying that it is not accurate or that the statement should not be interpreted to mean that computers will not be approved for Israel?

Mr. BARTHOLOMEW. Exactly. It is not to say that we are ready to export computers in the one case and not export them in the other. That does not reflect that decision or a decision like that.

Senator DECONCINI. Not to put words in your mouth, but let me rephrase this once again, just so I understand it. The Cray supercomputer has been approved for Saudi Arabia. There are a number of other supercomputers that are under consideration, including some to the State of Israel. There has not been a decision to deny them, to your knowledge, to the State of Israel?

Mr. BARTHOLOMEW. That is so.

Senator DECONCINI. That is what I wanted to know. Thank you, sir.

ARMS TO SAUDI ARABIA

Now, as long as we are talking about Saudi Arabia, I see that according to a Congressional Research Service report, Saudi Arabia topped the list of arms buyers last year, receiving 4.9 billion dollars' worth of arms delivery. Over the last 8 years Saudi Arabia has received arms delivery totaling $46.7 billion, 15.6 percent of the total arms sale to the Third World.

Can you comment, Mr. Secretary, on why we are currently offering to provide Saudi Arabia with another $4 billion in sophisticated arms on top of the massive arsenal we have provided them over the last 10 years? Is the national security really in jeopardy? It appears that the external threats to the kingdom have lessened dramatically.

Mr. BARTHOLOMEW. Senator, I would first of all point out the importance of our connection with Saudi Arabia in terms of its location, its oil, its potential as a force for moderation in the Middle East. It is a very extensive land surface in a dangerous part of the world. And the Saudis are trying to build a modern force to account for that.

Now, on the specific cases that you are talking about, the specific military needs that they reflect, I would like to ask my colleagues from Defense if they would be prepared to address those.

Senator DECONCINI. That would be fine. Thank you.

Mr. ROWEN. There is a current sale in process, and it is designed, as Mr. Bartholomew said, or within the framework that Mr. Bartholomew has said. There are some light armored vehicles for the national guard of Saudi Arabia, which is a force that is organized somewhat independently of the military and needs equipment. It is getting some light armored vehicles.

There are some upgrades to the AWAC's aircraft that we provided Saudi Arabia some years ago and there are some electronic improvements to that aircraft. And there is a third category.

General BROWN. I believe it is some recovery vehicles that we are providing. And if I may just comment, Senator. We can provide you with a breakout of what that total figure means that you mentioned. I do not have those figures exactly in my head, but let me just point out that of the total dollar figure that you mentioned, somewhere in the neighborhood of, I would say, around 20 percent or less of that has been spent on arms. The remainder of it is spent on training and facilities and associated services.

Senator DECONCINI. Of the $4 billion, General?

General BROWN. No, no; I am talking about the total realm.

Senator DECONCINI. The total $46.7 billion?

General BROWN. And I can give you a detailed breakout of that.

[The information follows:]

SAUDI ARABIA

The total value of Foreign Military Sales to Saudi Arabia through fiscal year 1989 is $48.3 billion. The percent spent on weapons and ammunition is 12 percent, with the remainder spent on support equipment, spare parts and modifications, and support services.

A detailed breakout follows:

[In billions of dollars]

		Percent
Total weapon systems and ammunition: Combat aircraft; combat ships; combat vehicles; weapons; ammunition; and missiles	$5.61	12
Total support equipment: Other aircraft; support vehicles; communications equipment; and other equipment and supplies	8.27	14

[In billions of dollars]

		Percent
Total spare parts and modifications: Aircraft spares and modifications; ship spares and cost sharing; weapon spares; automotive supplies and equipment spares; missile modifications and spares; and communications equipment spares	4.24	7
Total support services: Construction; repair and rehabilitation; supply operations; training; and other services	30.18	67
Total Saudi Arabia	48.30	100

Senator DECONCINI. My time has run out, but I would like to pursue this, perhaps later if I can stay. However, I would like to know, of the $4 billion, how much of that is for training?

General BROWN. We can provide that, too.

[The information follows:]

TRAINING

Of the $4 billion, approximately $328 million is designated for training.

THREAT TO SAUDI ARABIA

Senator DECONCINI. Quite frankly, Mr. Secretary Rowen and Secretary Bartholomew, your answer as to the threat to Saudi Arabia and why we are continuously allowing them to be the No. 1 arms purchaser is very unsatisfactory. I would like you to give an assessment to this committee, as to the threat to Saudi Arabia? Is Iran ready to invade them? Are they so threatened that we need to keep selling them 4 billion dollars' worth of arms per year?

I would like to know, Mr. Secretary, if you can say, for the record, what additional arms sale to Saudi Arabia is expected next year? Is the threat to their security still going to be so great? Is the threat under reassessment on an annualized basis? I do not have to have your answer now because my time is up and I will wait for later.

Thank you, Mr. Chairman.

[The information follows:]

SAUDI ARABIA

The Saudis have informally expressed an interest in making additional military purchases in the future, including more Abrams tanks and fighter aircraft. Their desires will be more clearly defined when the next Javits Report is published early next year. As for assessments of the threat, this is an ongoing process. This is a dangerous area of the world and Saudi Arabia continues to be concerned about potentially hostile neighbors. Of course, U.S. vital interests are at risk as well. The administration always considers the threat and the resulting effects on the balance of power in the region prior to making an offer to sell military hardware.

ADMINISTRATION'S POSITION ON HOUSE VERSION OF FISCAL YEAR 1991 FOREIGN AID BILL

Senator LEAHY. Thank you. Senator Kasten is here and so I will withhold my questions and yield first to Senator Kasten for any opening statement or questions he wishes to have.

Senator KASTEN. Mr. Chairman, thank you.

Mr. Bartholomew, I just want to understand the administration's position with regard to the House bill. There was an article in the

paper this morning, concerning letters going back and forth between Mr. Eagleburger and Mr. Scowcroft, and Congressman Edwards of Oklahoma. There is a $300 million or $350 million shortfall in the important accounts that we are talking about now.

I understand the administration may sign off on that, believing that that budget is about as good as it can be, and we want to get Republican support for it and fix it in the Senate. But we are not going to see it fixed in the Senate if we are dealing with such low numbers. I just want to understand what your position is.

It seems to me that that bill will fail if we argue successfully funding that is not adequate, particularly as we are seeing changes all over the world and money being diverted to Eastern Europe and other places.

What is the administration's position on the bill that has come out of the House markup?

Mr. BARTHOLOMEW. Senator Kasten, let me take a few minutes to explain where we are and where we got to and how we got there in response to your question.

Chairman Obey's proposed mark, which he shared with us just prior to markup, those marks were, to say the least, troubling to the administration. And we were particularly concerned about the implications of the very low mark for foreign military financing [FMF] for the account as a whole and for programs that we consider vital to our national security and our foreign policy interests.

That was not our only concern, that is to say, the FMF number. The fact that the mark contained no funding at all for the World Bank was also unacceptable. Now, working with the Members, we tried to improve the FMF and the World Bank levels in the subcommittee markup. We tried. We tried hard, but we ultimately tried hard unsuccessfully to restore the subcommittee's mark in FMF to at least the fiscal year 1990 level. That is to say, the chairman's mark was some $315 million below the fiscal year 1990 level in FMF. So we tried. We did not succeed on that.

We then had a choice, the administration then had a choice. We could fight the bill in full committee and on the floor and face the prospect that, bad as it was, it would get demonstrably worse. Or we could work to improve it as it moves along through the entire span of the congressional process. We thought the latter course was the wiser one.

And working with subcommittee Republicans, we negotiated with the chairman to set the FMF and World Bank levels as high as the traffic would bear in this negotiation. Unfortunately, that meant we were only able to get just less than one-half of what we felt we needed in each case. We got back $144 million of the $315 million cut in FMF, and some $50 million of the $110 million cut for the World Bank.

Senator, the agreement struck with the House—the agreement struck with the House extends to support for House action only. We made that clear, and we made it clear that we intended to pursue further improvements as the process moves through the Senate and as the process moves through conference. And our appearance before this committee today is part of that process. We want to make it clear that we are seeking, here and in the Senate, higher numbers in the key accounts, in particular in FMF and

World Bank levels, as I mentioned. We continue to believe that the request levels that we have in front of you are fully justified in both cases, and we continue fully to support them.

What we are doing here today is to ask this subcommittee for support in giving us a better balance to the final bill, and we want to work with you to try to accomplish this goal. That is where we are, Senator.

Senator KASTEN. Well, I am not an administration strategist, but I want to say that I believe that the administration request is justified, particularly in the key accounts that you are talking about. But I do not think you will go where you need to by, in effect, caving at the first round.

It is my belief that you could defeat the bill on the floor of the House of Representatives behind you with a strong statement of opposition and coalition of people behind you who are concerned about supporting emerging democracies and who remember what happened in last year's bill when key countries were zeroed out because the administration decided not to fight for their funding in the House of Representatives.

You are putting this subcommittee in a very difficult position. I hope you will reconsider between now and next week.

I will do what I can within the administration to ensure that the position we take is in opposition to the House bill. But for us to agree to acquiesce, if you will, sends all the wrong signals.

And 5 months from now we will be sitting here wringing our hands once more because we were not able to help Jamaica, and because we are short by more than one-half for key countries in South America who are trying to work with us on drugs and on economic reforms.

And then we will end up on the floor of the House or the Senate with an amendment to fence money for Hungary and Poland. And that will further exacerbate the problem.

So I hope you will reconsider this position and work to defeat that bill. If we lose, at least we stand for something and we have drawn a line. We are not going to pretend that this is adequate.

Thank you, Mr. Chairman.

Senator LEAHY. Thank you.

MILITARY VERSUS ECONOMIC AND EXPORT AID

Secretary Bartholomew, I would like to add to the confusion and mixed signals you may be getting. Senator Kasten is very forthright in saying that he thinks the administration gave too much in negotiations with the House. Just to add to the equation, I think the House gave too much in their negotiation with you. And if you think it is going to be fixed, as the article said, here in the Senate, you have got a rocky road ahead with me.

Mr. BARTHOLOMEW. Improved is the word we used, Senator. Improved.

Senator LEAHY. I intend to do everything possible I can to improve it, but improvement may be like beauty, in the eye of the beholder. Senator Kasten's idea of improvement will be different than my idea of improvement. For example, the House Appropriations Committee recommended a cut of about $100 million in for-

eign military financing. My thinking is along the lines of a $200 million cut, justified by the collapse of the Warsaw Pact and a number of other reductions of tension. We ought to shift money into development assistance and export promotion.

You know, one of the big problems we have is that there is not very much money in the export promotion accounts. Last year the administration did not even come up and lobby to get money into the account during the 302(b) allocations. Instead, they lobbied quietly and sometimes not so quietly behind the scenes to put the money into various administrative costs: new buildings, desks, chairs, lamps, water carafes, salaries, things like this. I am not suggesting that all these things are not important and I am always impressed by a nice looking office. But it took an awful lot of money out.

Whatever negotiations and battles you have with the House, do not go on the assumption that you have the Senate in your pocket because I happen to think the House came too close to the administration position.

FLEXIBILITY AND AID JUSTIFICATIONS

I say this notwithstanding the fact that I would like to find some way to carve out a significant amount of money to give to the President in a discretionary account. As you know, I have had some discussions both with President Bush and with Secretary Baker about this. I believe very, very strongly that the President of the United States should have a great deal more flexibility in foreign aid and should have money there to give that flexibility.

I think I can probably say it without any ulterior motive, I just think it is good Government policy. We started moving away from that policy during the Vietnam war and then with the Contra war and the Iran-Contra affair. But I think we have got to go back to giving flexibility.

At the beginning of this year I said on the Senate floor that every foreign aid program would have to be justified on its merits. Let us take military aid to Israel, one of the largest accounts, as an example. It is precisely the same amount as it has been for the last several years. Now, this is not the congressional earmark. I am talking about the amount the administration requests.

Is that amount based on need or history? Is it based on what the real requirements are? Or is it just locked in as kind of an entitlement program?

Mr. BARTHOLOMEW. Senator, may I address first of all the general question first and then come to the question of Israel?

Senator LEAHY. Fine. And then I am going to have a followup on Egypt. You can imagine the same question.

Mr. BARTHOLOMEW. Perhaps I might exercise a little right of reply here, although I sort of find myself in the situation that the better I do with you, the worse I will be doing with Senator Kasten and the reverse. [Laughter.]

But let me try.

Senator LEAHY. He has more clout around here than I do, so you probably had do better with him. [Laughter.]

Mr. BARTHOLOMEW. Senator, if we had—if we get anything like the original chairman's mark in the House—which is what you seem to be heading toward, anything like the original set of cuts, then I have to tell you quite frankly that we are into a disastrous situation. If you make the normal projections as to what is most likely to happen on this side, in the Senate, in terms of earmarking, we could end up with a situation in which virtually none of the main priorities, including some of the new ones that we are all most interested in in terms of drugs, including critical situations such as the Philippines, Portugal, on and on, receive virtually no money.

Now, Senator Kasten is right when, for his part, he says that even at the deal that was cut to get this bill through the House at the level that is involved there, restoring $144 million in FMF, we still face the question that we will not be able to adequately fund five of our top priorities. And probably where at least three of them are concerned we are going to be forced into choices which I will tell you right now are extremely serious in terms of the impact that they could have on our Nation's position with important nations and in critical situations. But there it is.

That is why, Senator, I take note of what you are saying, but we are going to try to improve the situation here in the Senate. And we are going to try to continue to convince you that that is the way to go.

ISRAEL

Now, on Israel. The answer—the short answer to your question where does the Israel military assistance figure come from, is both. It is history, Camp David, and it is need: the situation in which Israel finds itself, and certainly there is nothing in that situation that suggests the threat to Israel has declined. As a matter of fact, we have had some evidence in the form of statements by various leaders in the Middle East that do not exactly contribute to feelings of confidence about the course of events there. And so it is a mix of the two, Senator. And it is on that basis that the number is as it is once again in fiscal year 1991 request.

Senator LEAHY. Mr. Rowen, did you want to add anything on that?

Mr. ROWEN. No, sir; I think that says it. There is a lot of support for continuity in the amount which is provided to Israel and Egypt, which, by the way, shrinks in real terms year by year. I mean, this is fixed at a nominal level, not at a real level. And so over time, in effect, it declines.

EGYPT

Senator LEAHY. Well, let us take Egypt. Is the answer the same for Egypt? The request is exactly the same as it has been for years.

Mr. BARTHOLOMEW. Senator, yes. Quite frankly, history and need again. But I would add a third variable in this case, and that is that where Egypt is concerned, its situation in terms of the economic situation is even more dire than some of the difficulties that Israel has encountered. It is of a totally different order.

Senator LEAHY. Well, they are drowning in debt, too. I mean, it is not just security interests. Will they be better off using some of that military aid to pay off some of their debt instead of buying more military equipment? Or are their security needs such that they need the military equipment?

Mr. BARTHOLOMEW. You are right to talk about the debt problem, particularly in all of its dimensions. It is a serious one for Egypt. I can tell you we have got an interagency group looking at different options for how to handle this problem, how to handle problems such as the risk that the Brooke amendment gets invoked because of payments failure and the like. We are looking at it hard.

We like some of the flexibility that is being offered in terms of the potential use of FMF moneys where debt is concerned. We would not like it to turn into another earmarking function. That is to say, specific amounts for specific countries.

But what I would come back to, Senator, is the fact that I do not think it is arguable that, for the United States in the Arab world, in the critical Middle East, Egypt is an essential country and that is the context in which we assist Egypt.

EARMARKING

Senator LEAHY. Well, then let us go to the question that your statement almost demands to be asked. We have talked about Israel, and we have talked about Egypt. I brought them up not expecting some major policy change, but because they are by far the two largest earmarks. They make up a very significant percentage of the earmarks.

I hear always the administration complain, If we did not have earmarks, by gosh, we could conduct a foreign policy. But those two congressional earmarks are exactly the amount the administration has asked for the past several years. Then I go through all the other earmarks and it is remarkable how it came out in last year's bill.

They closely tracked the administration's proposals. The earmarks and the administration's proposals were very, very similar. Many of them, in fact, were negotiated with the administration.

Now, the question I have is this. Which one of the congressional earmarks would the administration make a major change in if it was not earmarked? Where would we see a significant change from what the Congress has already done? You said there would not be any change in Israel. There would not be any change in Egypt. Would there be a change in Turkey or in Greece or in the Philippines or in Pakistan? I mean, if you look back, are there any changes from what we have earmarked in the past?

Mr. BARTHOLOMEW. Senator, there is no specific answer to your question without looking at the kinds of funding levels that you would be appropriating.

Senator LEAHY. Well, you have obviously reviewed last year's budget. Let us just take those earmarks as a specific example. Would the administration make a change—had Israel not been earmarked, would the administration have had a different amount going there?

Mr. BARTHOLOMEW. Again, would the administration——

Senator LEAHY. Would the administration have had a level of foreign aid going to Israel different than what we earmarked, had there been no earmark?

Mr. BARTHOLOMEW. I cannot answer that in the abstract, but I think the answer would be no. But let me come back——

Senator LEAHY. Well, if you would just hold a minute, and trust me, I will give you all the time to elaborate.

Actually the administration would not have done anything different with aid to Egypt, Greece, Turkey, or Pakistan than we had. These are the major recipients, so I am just wondering where the problem with earmarks comes in.

Mr. BARTHOLOMEW. The problem with earmarks comes in like this, Senator. We do a program in which we assign certain amounts to a range of countries. And then what happens is a large number of these countries are—but not all of the critical ones—are earmarked. And simultaneously, the general funding level is brought down. What that means is, because we cannot touch—we cannot touch the earmark levels, the cut that has occurred in the general funding level must be concentrated on the countries that are unearmarked. And we have no flexibility without invoking what you call in your statement, by the way, the atom bomb of 614 procedures and the like. You know, except to cut earmarks and the like to reallocate.

Senator LEAHY. I do not disagree with that. Mr. Secretary——

Mr. BARTHOLOMEW. Remember, we proposed to cut earmarks in conference, to shave earmarks in conference, at that point exempting Israel and Egypt. And I think the subcommittee rejected that proposal when we made it last October.

PRESIDENTIAL CONTINGENCY

Senator LEAHY. I believe we did shave all the earmarks to fund the antidrug provision.

But the point I am making, Mr. Secretary, is this. I absolutely agree with what you are saying in theory. If there are no earmarks, you do not have this pressure. You could move funds around. That is wonderful theory. It works perfectly, except that, if the administration is going to commit itself to virtually the same amounts of money in all these countries, I do not know where your flexibility comes from. You are already committed to it. When you look at your 1990 requests compared with what was earmarked last year, they are virtually the same. And they are the same again this year.

If you want to have that kind of flexibility, you are not going to have to have some extra money. There would have to be a flexibility account, call it whatever you will—the President's discretionary account, the Secretary of State's walking-around money, God Bless America funds—whatever you want to call it. Do you not really need to create a new fund.

Mr. BARTHOLOMEW. Let me simply say that we would not be talking about, in a situation where we were forced to look again by overall funding cuts, about locking in every single number. We would have been forced into making some hard choices.

Now as I say, last year what we proposed to do in conference was this shave of the earmark to pick up some of the funds there, minus Israel and Egypt, to pick up some funds that might have been used to cover the countries that were not earmarked and therefore where the cuts were otherwise going to have to be totally concentrated.

Now, we have looked at this question further on shaving earmarks and we are drawn more and more, as Secretary Baker has said, in the direction that if we have to do that, we would want to perhaps have to cut across the board in some ways. But it is something we would have to look at very carefully.

The point is we are forced into this, this kind of a procedure of generalized cuts and the like by the range of the earmarks, which concentrate cuts in programs that we cannot see go down below a certain level without very serious effects, we believe.

On the contingency fund, if I may, Senator, or the idea——

Senator LEAHY. Incidentally, when the administration was asked to go out and publicly support that and push for it, they backed off. But go ahead. Maybe we have got some revisionist history here, and I would be happy to go back and doublecheck what happened. But my recollection is that when that came up in some preliminary discussions, when it got down to the decisionmaking, then the Department was not willing to push for it.

Mr. BARTHOLOMEW. I think in any event it was an idea that there was some interest in within the Department. Then it did not fly up here. But I agree.

Senator LEAHY. I do not think it flew up at the Department. Obviously, I could not get a majority vote for this. But I would be happy to do away with all earmarkings for a year and see what happened. I guarantee you that you would still be spending money virtually in the same way that the earmarks have been. And the first crisis that arose in Nicaragua, Panama or anywhere else—everybody would be running up here for a supplemental appropriation.

Mr. BARTHOLOMEW. Senator, I do not think that would be the case and I am so confident of it that I accept your offer of no earmarks for this year. [Laughter.]

Senator LEAHY. Tell me where the money would be spent if there were no earmarks. I am serious now. You want an offer? Let the administration tell me where they are going to spend that money if there are no earmarks.

Mr. BARTHOLOMEW. I think we have a program in front of you.

Senator LEAHY. Yes; I have seen the request. It is virtually the same amounts of money in each account as what is earmarked.

Mr. BARTHOLOMEW. But not where the unearmarked programs are concerned. That is where our problem is.

Senator LEAHY. I tell you what. You tell me, based on the money you realistically expect to get, just where you would spend the money, absent earmarks. I would be very interested in seeing that. I do not think it would be that much different.

But I am on Senator DeConcini's time, and I apologize, Dennis. We will be continuing this conversation, Secretary Bartholomew.

THREAT TO SAUDI ARABIA

Senator DECONCINI. Mr. Chairman, thank you very much. You raise, I feel, a very crucial question and I like to support the chairman when I can. However, I am not nearly as generous as he in making the offer to not consider any earmarks. I have great concern with what would happen to Israel, Egypt, and Pakistan and other countries. Secretary Bartholomew, let me go back to Saudi Arabia. We were talking about it a few minutes ago, and maybe General Brown can help us. Am I under the misinterpretation that the threat to Saudi Arabia is as great or greater than it was a year or two ago?

Mr. ROWEN. Let me start, Senator. Sitting in Riyadh looking around in various directions, there is trouble really perceived very widely, or potential trouble. Certainly across the gulf there is.

Senator DECONCINI. Well, if I may interrupt you, Mr. Secretary, let me ask you about that. Is the threat as great or greater than it was a year or two ago, in the Persian Gulf?

Mr. ROWEN. The armistice between Iran and Iraq has obviously improved the situation. But it is only an armistice, and there is no settlement and the situation has seemed to improve. But it is not solved.

Senator DECONCINI. You are saying the threat is just as great in your judgment?

Mr. ROWEN. I think the Saudis perceive a significant threat. I would not want to characterize how they see it this year versus last year. I think they see a threat. I think that there is concern about other countries in the peninsula. They worry about some of their neighbors as well, and I do not want to get into any detail on that in an open session. But they are concerned about some of their neighbors in various directions. They obviously have a worry about Israel. So they see multiple concerns.

Moreover, I would point out that with regard to arms sales, the questions you raised a few minutes ago, Saudi Arabia has markedly shifted the pattern of its purchases of arms away from the United States to other countries, in particular to Great Britain, in very large purchases which they made some years ago. And that was done largely in frustration with their inability to acquire weapons from the United States because we would not provide them. And they went to the Europeans and they said, very well, we will get that which we feel we need from other sources. And they, of course, have gone and done that.

So in any case, they have their perceived needs and they have the financial wherewithal with which to act. And so we see a significant program on their part, an effort on their part to build up their defenses.

I would add one other point. Despite this shift in their purchases of weapons away from the United States, we still do, as you know, have a significant program with them, and we also have a good deal of cooperation with them. We are very much concerned that as much as possible, their weapons and forces are interoperable with our own, in case we have to go there, which we have done, to try to keep open access to the gulf.

To keep the oil flowing, we engaged in an operation which was very important toward that end in the late 1980's, 1988, 1989, reflagging of the tankers and the substantial reinforcement of our forces. And the fact that we had a close cooperative arrangement with a number of countries in that region, including Saudi Arabia, greatly facilitated our ability to conduct that operation.

UNIFICATION OF YEMEN

Senator DECONCINI. Does the unification of Yemen have any impact on Saudi Arabia's security?

Mr. ROWEN. I do not regard myself as an expert on that subject, but I think there is certainly an interest in Saudi Arabia, and what happens in the Yemens is a traditional interest and concern of theirs. The population of the two Yemens together, I think is probably as great or greater than that of Saudi Arabia.

General Brown, do you want to add anything to that?

Senator DECONCINI. Would the unification have an effect one way or another, General?

General BROWN. I am sorry, Senator, I did not hear the question.

Senator DECONCINI. Does the unification of Yemen have an impact on Saudi security?

General BROWN. The outcome of that unification, I think, is something they view with great interest and a bit of concern because of the marked difference in populations there—about a 4-to-1 ratio, if nothing else. I think in their mind it is too early for them to make a definitive judgment.

I was just in Riyadh about 10 days ago, and to reinforce what Secretary Rowen just said, I would say, again without getting into detail, that the Saudis do not feel that the threat has lessened as a result of the cease-fire between Iraq and Iran.

Senator DECONCINI. Do you go along with that, General?

General BROWN. Yes, sir.

Senator DECONCINI. Do you think the threat is just as great as it was?

General BROWN. When you look at capabilities out there in the neighboring states, yes, sir.

SAUDI ARMS PURCHASES

Senator DECONCINI. General, is there validity to the sale of 40 multiple-launch rocket systems to Saudi Arabia? Is this sale going to happen? Is that proposal going to be submitted?

General BROWN. They have not, to my knowledge, formally requested that.

Senator DECONCINI. What about the F-15 aircraft replacement program? Do you know how that is coming along?

General BROWN. The F-15? They have not requested that either. Now there have been some discussions about it.

Senator DECONCINI. Is there any truth in the Jane's Defense Weekly report that the Saudis wish to expand their purchase of the M-1 tank from 315 to over 700 tanks?

General BROWN. We discussed that in general terms when I was in Riyadh. This is within the context of modernizing their forces

and replacing older equipment. They have some older French AMX-30 tanks, I believe it is, that they are interested in replacing.

STINGER MISSILE COPRODUCTION AND PROLIFERATION

Senator DECONCINI. Thank you. Mr. Bartholomew, let me ask you one last quick question if I may regarding Stinger missiles in the Persian Gulf. I remain very concerned about this weapon falling into the hands of terrorists. We saw the Medellin drug cartel attempting to buy some. I am concerned because I have heard reports that the U.S. Army is considering entering into coproduction agreements with certain European countries to produce the Stinger. Is there any truth to this report? And second, what is the administration doing to prevent the proliferation of these types of weapons. Under your new proliferation office, can you give us a quick summary?

Maybe that is a question for General Brown. Is there any coproduction effort of the Stinger missile with European countries under consideration?

General BROWN. With Switzerland, is one—a European consortium is a second one, which is comprised of, I believe, four nations: Germany, Turkey, Greece, and The Netherlands.

Senator DECONCINI. Along with those negotiations, are there any restraints on proliferation of that weapon?

General BROWN. Yes, sir; that agreement is being worked on at this time.

Senator DECONCINI. Can you supply us with what the U.S. position is on the proliferation provisions in those coproduction agreements?

General BROWN. What we are working on, and this is with the State Department and the foreign government—the consortium over there is a security agreement, very similar to what we have when we, the United States, sell the Stinger, in terms of physical security, periodic inventory, and those types of things.

Mr. BARTHOLOMEW. Senator, can I simply say, this is a question that is under review, this question of these—and under discussion——

Senator DECONCINI. Do you mean the coproduction?

Mr. BARTHOLOMEW. Yes; the coproduction question.

Senator DECONCINI. So nothing has been entered into yet? They are just negotiations?

Mr. BARTHOLOMEW. I do not think we have signed anything yet, at this stage of the game.

Senator DECONCINI. Is that correct, General?

General BROWN. We have an agreement with the consortium on the Stinger and with—my recollection——

Senator DECONCINI. On coproduction?

General BROWN. Yes; with the Swiss.

Senator DECONCINI. If that is the case, Mr. Secretary, can you tell us what the proliferation restraints are or would you supply that information for the record?

Mr. BARTHOLOMEW. I will provide some—let me review the case and see if there is something I can usefully provide for the record. But let me add, that in any of these cases where that missile is con-

cerned, the nonproliferation development is very much foremost for reasons that you are particularly well-equipped to understand, Senator, having focused on this question the way you have, the uses and misuses to which that missile can be put, particularly if it falls into the wrong hands.

Senator DECONCINI. Mr. Secretary, with all due respect, I know you are very busy and have a lot of things to handle. But I find it very disturbing that you are not aware of a coproduction agreement of the Stinger missile with the European consortium and that all you can say about proliferation is that you are very concerned about it. You do not have any specifics on it. You have an office and some specialist on proliferation that supposedly was going to work on this, and I would appreciate a report, if you have one.

I would appreciate it if you could put something together on that subject matter. It is of great concern to me, as you know. We have talked about it many times.

Mr. BARTHOLOMEW. Senator, my hesitation was not from lack of knowledge of the coproduction arrangement that you are talking about. It was because I am not exactly sure of what the precise status was in terms of what I know we are trying to work out. And also, to be frank, because I think there are some elements that I think we want to take a look at where that is concerned.

And I was trying to say that in a more guarded form than I have now said it.

Senator DECONCINI. Can you supply us with some information about what the proliferation policy is on the Stinger?

Mr. BARTHOLOMEW. We will give you a status report on that.

Senator DECONCINI. In general and, specifically, as to the coproduction agreements.

Mr. BARTHOLOMEW. Yes.

[The information follows:]

STINGER PROLIFERATION AND COPRODUCTION

The administration has carefully controlled the Stinger missile system, allowing sales only to friends and allies with a demonstrable need, and agreeing to coproduction only with some of our closest friends and allies. We have, in all cases, complied with section 580 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990, in our decisions to transfer Stingers and Stinger technology. We do not foresee any additional coproduction arrangements at this time.

Senator DECONCINI. Thank you.

Mr. Chairman, I am sorry to keep the Secretary and you so long.

IMET PROGRAM

Senator LEAHY. I know the Secretary has to leave and let me just say one last thing, and everything else I will put in the record.

As you know, I have been concerned about the IMET program for some time. We have been paying to train some foreign officers from a lot of countries that are not the least bit democratic. And we have also paid the bill for countries that have per capita income certainly a lot higher than my own State of Vermont.

Last year I asked the GAO to study the IMET program. They went to six countries and several U.S. military commands, and I am releasing that report today.

I understand none of you has had a chance to read it, so let me just read part of the findings. It says:

> Neither Defense nor State has the system of evaluating the success of IMET training in meeting program objectives * * *. The lack of a system to periodically evaluate program success could result in the continuation of programs from year to year without considering changes in the military, economic and political relationships between the United States and the countries. For example, (1) Austria has been allocated more funds than it can effectively use; (2) Peru's IMET program is based on objectives that are inconsistent with U.S. foreign policy; and (3) Spain's ability to pay for its training has changed.

IMET is a program that runs on momentum or inertia. Until this GAO study I requested, I do not think that anybody had looked at IMET since the early 1970's.

So please take a look at the report. Let me know your reaction. I do not think it is fair to ask you to react off the top of your head to a report that is just being released today, so I will include several questions for the record regarding IMET and the GAO report.

ADDITIONAL COMMITTEE QUESTIONS

I am delighted that you all could be here. I appreciate the time that you spent. And General, I am going to miss seeing you as a witness at these hearings.

General BROWN. Thank you.

Senator LEAHY. Thank you. There will be some additional questions which we will submit to you for your response.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

DEPARTMENT OF STATE
ADDITIONAL COMMITTEE QUESTIONS

SECURITY VS. ECONOMIC ASSISTANCE

SENATOR LEAHY: I understand that the Administration's position with respect to foreign assistance is that the make-up will change, yielding less military assistance and more economic assistance. Many of my colleagues have recommended significant decreases in military assistance already, without looking at the individual programs to see if such reductions are warranted.

QUESTION: Are you looking at our military assistance programs with an eye toward shifting some toward economic assistance if it's warranted, and perhaps by eliminating this assistance altogether in specific cases?

MR. BARTHOLOMEW: We will be taking a very careful look at how the FY 92 security assistance budget can be structured to continue meeting our international responsibilities and furthering our national interests in today's rapidly changing world. As always, we will look carefully at the best mix of military and economic assistance and how they can best be distributed by region and country. However, both military and economic assistance will remain important in each region, albeit in different proportions. Given existing real world conditions, we cannot reasonably expect to eliminate military assistance to any region over the next five years.

Many of our friends and allies still confront serious threats from regional tensions, terrorism, and narcotics trafficking. Our friends and allies in the Middle East and elsewhere still have legitimate defense requirements, and need our help to fulfill them. We must continue to help our friends deal with these and other challenges by providing military and economic assistance.

OVERVIEW - CHANGING REQUEST

SENATOR LEAHY: On May 1, Secretary Baker told this subcommittee, in substance, that this is the last "business as usual budget," and next year it will be very different. How do you foresee your request changing -- I don't mean in details, but in overall concept?

Do you see us beginning a decline in military aid?

MR. BARTHOLOMEW: We will be taking a very careful look at how the FY 92 security assistance budget can be structured to continue to meet our international responsibilities and further our national interests in today's rapidly changing world. As always, we will look carefully at the best mix of economic and military assistance, and how they can best be distributed by region and country.

At this time, I can not say exactly what our FY 92 budget proposal will look like. That is still a matter of internal discussion within the Adminstration.

OVERVIEW - TRENDS IN MILITARY AID

SENATOR LEAHY: Let us assume current trends continue over the next 3 - 5 years. How do you see our military aid programs changing during that period?

MR. BARTHOLOMEW: If current trends continue, I think that we will be able to reduce gradually, in some cases, our

foreign military financing over the next five years. However, I cannot speculate on the rapidity or degree to which such changes would be an appropriate way to advance U.S. interests. We will simply have to be prepared to respond to developments as they occur.

Apart from uncertainity, much of the problem is that the favorable change to which you refer has not been across-the-board. Critical U.S. regional interests have not been affected by the developments in Eastern Europe and Central America. We will need to continue our assistance to Israel and Egypt in their pursuit of security and peace. We will also need to continue to support fragile democracies in Pakistan and the Philippines with considerable military assistance. In our hemisphere, the drug war will require more resources in the short run. In Europe, our military assistance will continue to be needed to enable the southern flank of NATO to meet its responsibilities in assuring stability.

MILITARY AID TO FIGHT DRUGS

SENATOR LEAHY: Mr. Bartholomew, Mr. Rowen, earlier this year I wrote to DSAA Acting Director Glenn Rudd about the proposed increases in military aid to Peru and Bolivia.

I asked what was being done to ensure that this equipment does not go to individuals who have committed human rights abuses. Mr. Rudd wrote back that we do not control who gets our aid, we only monitor how it is used.

Given the Peruvian military's record on human rights--Amnesty International says the military uses the same brutal tactics as the guerrillas--what is the Administration doing to ensure that our equipment will not be used for these same kinds of abuses?

MR. BARTHOLOMEW: We are keenly aware of the potential problems in providing military aid to Peru and will take all possible measures not only to ensure that our assistance is not used to commit human rights abuses, but that it is used to professionalize Peru's armed forces and improve the military's respect for human rights. We are working closely with those in DOD who will design and implement the program in order to ensure that human rights awareness and training is included in any and all instruction provided to the Peruvian military. We will also closely monitor the Peruvian military's human rights performance. We have made clear to all of our Andean partners that our continued assistance depends upon observance of internationally recognized human rights norms, and we are prepared to cut or stop assistance if necessary.

SENATOR LEAHY: Peru's President-elect Fujimori has said economic aid, not military aid, is what his country needs to overcome its dependence on coca. Has the Peruvian government agreed to your plan to dramatically increase military aid?

MR. BARTHOLOMEW: The current Peruvian government has not signed the proposed military assistance agreement. However, President-elect Fujimori has publicly stated that he is interested in receiving both equipment and training. I would also point out that our Andean Strategy includes sharply increased levels of economic assistance for the Andes--a total of $175 million for the three countries in FY-91, based on counter-narcotics performance. We look forward to meeting with Mr. Fujimori soon after he takes office to jointly work on a program of military and economic assistance which is tailored to circumstances in Peru.

GREECE/TURKEY

SENATOR LEAHY: I am told Greece's military aid pipeline, including fiscal year 1990, is $800 million. Is that correct?

MR. BARTHOLOMEW: As of July 11, Greece's uncommitted FMS

credits, including FY 90 funds, totalled approximately $824 million dollars.

SENATOR LEAHY: Does Greece intend to use the military assistance credits available to it? What major programs are planned and what financing will be required? At what rate will the Greek military aid pipeline be drawn down?

MR. BARTHOLOMEW: Prime Minister Mitsotakis told Secretary Baker during their meeting on June 4 that his government intended to move rapidly to use uncommitted funds. That process has begun. We anticipate that based on Greece's Five Year Armed Forces Modernization Plan, the GOG may use uncommitted FMS funds over the next year for the following major purchases: 20 F-16 C/D aircraft ($400 million), CH47C Helicopter upgrades ($156 million), Corvette class ships ($490 million), and ASW helicopters ($150 million). As the rate that the aid pipeline is drawn down depends on requests from the Greek Government, we cannot predict the timing of this process. I can only say that it is our perception that the Greek Government is acting seriously to address this problem.

SENATOR LEAHY: Please provide the subcommittee with a list, for fiscal year 1988, 1989, and 1990, for all countries, of military assistance piplines exceeding $50 million.

MR. BARTHOLOMEW: Following is a list for fiscal years 1988, 1989 and 1990 of countries with military assistance pipelines (i.e., uncommitted funds) in excess of $50 million. The list is broken-out by categories of grant, repayable and total assistance levels.

	FY 88	FY 89	FY 90
	(Dollars in Thousands)		
GREECE			
Grant	10,700	30,000	29,781
Repayable	112,801	320,000	318,624
Total	123,501	350,000	348,495
JORDAN			
Grant	-	-	57,457
Repayable	-	-	-
Total	-	-	57,457
PAKISTAN			
Grant	-	-	68,941
Repayable	-	-	-
Total	-	-	68,941
PHILIPPINES			
Grant	-	-	61,333
Repayable	-	-	-
Total	-	-	61,333
PORTUGAL			
Grant	-	-	84,635
Repayable	-	-	-
Total	-	-	84,635

TURKEY

Grant	-	59,767	69,809
Repayable	-	-	85,630
Total	-	59,767	155,439

GUATEMALA

SENATOR LEAHY: Once again you are asking for military aid. How can you justify this request in light of continuing abuses by the military and its continuing refusal to get out of politics?

MR. BARTHOLOMEW: Our limited military assistance is used to provide basic non-lethal materiel for Guatemala and to support training for officers in the United States. The request for $5 million is substantially below the $9 million provided in FY1989 and requested again in FY90.

Our aim is to strengthen the army's ability to defend elected democratic government from those on the right and the left who continue to seek its demise. Twice, in May 1988 and May 1989, the senior command of the armed forces has defended democratic rule against coup attempts. The army continues to battle a small but entrenched insurgency. Although we recognize that some members of the military have engaged in abuses, we feel that we enhance our ability to influence the military by combining our diplomatic efforts with a limited amount of non-lethal aid to support those in the armed forces who believe in elected civilian rule and the protection of human rights.

The Guatemalan military now depend on us for only a very small portion of its budget. When our assistance was suspended during the period 1978-1985, our ability to influence attitudes within the officer corps was very limited.

AID TO ZAIRE

Q. Mr. Bartholomew, once again you are asking for military aid to Zaire. Please describe in detail the current and planned military assistance program in Zaire. What is the justification for this program?

A. We have proposed $3 million in FMS financing to Zaire to provide minimum maintenance and spare parts for U.S. provided equipment: C-130 aircraft, small patrol boats, jeeps and trucks. We requested $10 million in FY88 and FY89 and $9 million in FY90 to ensure full maintenance of the previously supplied equipment. With limited funds available for Africa and a congressionally mandated cap, we were able to provide only $3 million in each of those years. Given continuing limits on the availability of foreign assistance funds, we are asking for $3 million in FMF for FY91.

The requested $3 million, which would go to maintain the previously supplied equipment I noted earlier, does not meet

even the minimum requirements for sustainment when you consider the need for a range of spare parts, replacement of major components (aircraft engines), and training and systems technical representatives (Lockheed). We are not proposing to spend funds on new programs or for new or replacement end items, including lethal systems. However, the U.S. made a commitment to support the programs we created and we want to keep that commitment. Without any future funding, our programs will be terminated and we will withdraw our few resident military personnel, thereby losing the military contacts that we need in Zaire.

Another $1 million in IMET is proposed to provide training in the U.S. for approximately 55 members of the Zairian armed forces. We consider this training and exposure to the U.S. and our values the most important part of our military assistance program.

Zaire, which occupies a key strategic position in central Africa, has long worked with the United States to achieve important regional and international objectives. For example, President Mobutu has made a significant contribution to the Angolan peace process and played a key role in 1988-9 in restoring ethnic peace to Burundi. In 1987, using the U.S. supplied C-130s, Zaire was the first country to send aid to Chad to resist Libyan aggression.

On April 24, President Mobutu announced his intention to move Zaire from a one party state to multiparty democracy within two years. Several parties are in formation, legislation to implement a multiparty system is being debated, and press commentary is more open and critical of the government. We have stated our support for rapid and full implementation of these changes. Cutting assistance at this point could undercut changes both Congress and the Administration have been seeking.

MILITARY AID TO PAKISTAN

SENATOR LEAHY: Mr. Bartholomew, for years we supported General Zia because he shared our opposition to the Soviet invasion of Afghanistan. Now the Soviets are out and Pakistan has a democratic government. Why should we send another $230 million in weapons to that country when the Soviet threat is vastly reduced and we continue to hear reports of rampant corruption in the military?

MR. BARTHOLOMEW: Though the Soviets have left Afghanistan, we believe it is in our interest to maintain a close security relationship with Pakistan, which has proven itself a staunch friend in a strategically important part of the globe. We believe our military assistance helps to maintain regional stability by helping Pakistan to feel reasonably secure in relying on conventional weapons for its defense. Finally military assistance, along with our economic development programs, is an important part of our support for Pakistan's democratic evolution. We have no evidence of "rampant corruption" in Pakistan's military, and in fact we believe that it is a highly professional and dedicated body.

QUESTIONS SUBMITTED BY SENATOR ROBERT W. KASTEN

PHILIPPINE BASES

SENATOR KASTEN: The United States has taken an enormous amount of criticism from many parts of the Philippine Government and general population with respect to the continuation of our bases there.

I believe that our chief negotiator has told the Philippines that if she doesn't want us there we are prepared to leave. Is this your view as well, that if the Philippines don't want us we will leave?

MR. BARTHOLOMEW: The President stated on May 16, with regard to the future of our military facilities in the Philippines, that "if we're not wanted there, we're not going to be there." This remains our policy. However, it is important to note that we successfully completed exploratory talks with the Philippine Government in May and expect to begin discussions soon on our future bilateral relationship, including the security dimension. We believe that continued, close security cooperation between the United States and the Philippines is strongly in the interest of both countries and makes a major contribution to regional stability. We are hopeful that the discussions will result in a mutually beneficial agreement.

GREECE

SENATOR KASTEN: Can you give us a better understanding of the results of your negotiations on bases with Greece?

MR. BARTHOLOMEW: I am attaching a copy of the final agreement, which has now been made public, for your reference.

In short, the agreement provides the basis for continuing mutual defense cooperation between the United States and Greece. A summary of the major provisions would note that the agreement provides for the continued use of our facilities at Souda Air Base and Iraklion Air Base for eight years, with the agreement renewable annually beyond that by common consent. The agreement permits the transfer of maritime patrol and reconnaissance flights from Hellenikon to Souda Air Base as well as the operation of airlift and logistic support including tanker aircraft for these missions. In a U.S. side letter on security assistance, the U.S. promises to continue annually to seek appropriate levels of defense support to assist in Greek Armed Forces Modernization. The Side Letter specifies excess military equipment to be transferred to Greece (28 F-4E aircraft, 6 P3A Aircraft, 28 A-7 Aircraft and 4 Charles F. Adams destroyers) and waives $50 million in non-recurring charges associated with systems recently purchased by Greece. In an exchange of notes on modernization, the Greek Government agrees to the upgrading of certain facilities at Souda and Iraklion in order to ensure the continued efficiency of these installations.

SENATOR KASTEN: Did you address with the new Greek Government the so-called 7/10 ratio problem here? If so, what is their view of the situation?

MR. BARTHOLOMEW: The so-called 7/10 ratio is not addressed in the agreement. As noted above, the Side Letter on military assistance notes that the USG will seek appropriate levels of defense support to assist in Greek Armed Forces Modernization. The Side letter also confirms that the Administration's request to Congress for FY 91 FMS financing is $345 million. The Administration continues to believe that the 7/10 ratio is an artificial and inappropriate way of determining security assistance levels. Greece and Turkey's security needs differ and the Administration believes that each ought to be considered on its own merits.

CASH TRANSFER PROGRAMS

QUESTION: We have received some criticism of ESF cash transfer programs. Do you look hard at individual programs with an eye toward providing commodity import programs (CIP'S) instead of cash transfers, which in many instances are just as valuable for the recipient country and have the added benefit of providing for American procurement?

ANSWER:

YES, WE DO LOOK HARD AT THE OPTIONS FOR ESF FUNDING WHETHER THEY ARE CASH TRANSFER GRANTS, CAPITAL PROJECTS OR COMMODITY IMPORT PROGRAMS (CIP's) BEFORE MAKING ANY DECISIONS ABOUT COUNTRY PROGRAMMING. IT IS REALLY A CASE BY CASE DECISION WHICH OPTIONS TO EXERCISE UNDER THE ESF PROGRAM.

WE AGREE THAT IN MANY INSTANCES COMMODITY IMPORT PROGRAMS CAN BE MORE BENEFICIAL THAN CASH TRANSFERS IN PROVIDING BOTH PUBLIC AND PRIVATE SECTOR IMPORTERS WITH CRITICAL CAPITAL GOODS AND OTHER COMMODITIES.

HOWEVER, THE OPTION TO USE A COMMODITY IMPORT PROGRAM DEPENDS ON THE RECIPIENT COUNTRY CIRCUMSTANCES. FOR EXAMPLE, IN SOME HIGH DEBT COUNTRIES WITH CRITICAL LIQUIDITY PROBLEMS IT IS IMPORTANT THAT THEY HAVE ACCESS TO CASH GRANTS TO SHORE UP THEIR INTERNATIONAL RESERVES AND MEET DEBT OBLIGATIONS TO U.S. OR MULTILATERAL INSTITUTIONS. WITHOUT SUCH SUPPORT FROM THE U.S. AND OTHER DONORS THESE COUNTRIES COULD RUN OUT OF RESERVES, SUSPEND PAYMENTS FOR IMPORTS, AND CREATE A SITUATION THAT WOULD BE WORSE FOR OUR INTERNATIONAL TRADE WITH THEM.

IN MANY CASES CASH TRANSFERS ARE NOMINALLY TIED TO THE PURCHASE OF AN EQUIVALENT AMOUNT OF U.S. GOODS AND SERVICES OVER THE PERIOD OF THE CASH GRANT. ALTHOUGH THIS TRADE CANNOT BE TERMED ADDITIONAL IT IS UNDERSTOOD BY THE COUNTRY RECEIVING THE CASH TRANSFER THAT IT MUST DEMONSTRATE THAT PURCHASES OF U.S. GOODS EQUAL TO THE AMOUNT OF THE GRANT. WE HAVE SUCH A REQUIREMENT FOR OUR CASH TRANSFERS TO ISRAEL, TURKEY AND PORTUGAL TO NAME A FEW.

PROCUREMENT

Mr. Bartholomew, you may know that this Subcommittee has become very concerned with studies showing that not anywhere near the 70%, which has been touted for a number of years, of our appropriated assistance comes back to the U.S. in the form of U.S. procurement of goods and services.

QUESTION: Is the State Department at all sensitive to this issue?

ANSWER:

YES, THE STATE DEPARTMENT IS SENSITIVE TO THIS ISSUE. WITH REFERENCE TO PROCUREMENT, SECTION 604 (A) OF THE FOREIGN ASSISTANCE ACT OF 1961 CLEARLY STATES THAT FOREIGN ECONOMIC ASSISTANCE FUNDS WILL BE USED TO PURCHASE U.S. GOODS AND SERVICES. THE SECRETARY AND I SHARE THE VIEW THAT THE FOREIGN ASSISTANCE PROGRAM SHOULD BENEFIT U.S. EXPORTERS AND THAT IT HAS POTENTIAL TO ENHANCE OUR EXPORT COMPETITIVENESS IN KEY SECTORS IN DEVELOPING COUNTRIES.

AS FAR AS THE 70% FIGURE IS CONCERNED, THE ESTIMATE IS BASED ON DATA FROM THE EARLY 1970'S WHEN A.I.D. STILL HAD A LARGE CAPITAL PROJECTS PROGRAM.

A.I.D. ADMINISTRATOR, DR. ROSKENS IS ACUTELY AWARE THAT A.I.D. NEEDS TO DEMONSTRATE JUST HOW MUCH U.S. SUPPLIERS BENEFIT FROM THE A.I.D. PROGRAM. A.I.D. IS UNDERTAKING SOME FURTHER STUDY OF THIS ISSUE TO SEE HOW BEST TO PROVIDE SUCH DETAILED PROCUREMENT DATA ON A ROUTINE BASIS.

THE STUDIES THAT YOU REFER TO ARE PART OF THIS EFFORT BY A.I.D. TO DEVISE A SYSTEM FOR REPORTING PROCUREMENT OUTCOMES.

IN ADDITION TO REPORTING BETTER PROCUREMENT DATA, A.I.D. IS REVIEWING ITS PROCUREMENT POLICY WITH RESPECT TO THE SOURCE/ORIGIN AND NATIONALITY OF GOODS AND SERVICES PROCURED WITH A.I.D. FUNDS. A FULL REVIEW OF CURRENT POLICY AND HOW WELL PROCUREMENT GUIDELINES ARE BEING APPLIED SHOULD HELP ENSURE THAT A.I.D.'S OVERSEAS MISSIONS ARE IMPLEMENTING PROCUREMENT POLICY CORRECTLY AND IN THE U.S. NATIONAL INTEREST.

FOLLOW-UP QUESTION: Do you approve of the wholesale waivers which allow for local and third country procurement?

ANSWER:

NO, WE DO NOT BELIEVE IN BLANKET WAIVERS FOR NON-U.S. ORIGIN PROCUREMENT. IT IS MY UNDERSTANDING THAT A.I.D. IS REVIEWING ITS POLICY AND PROCUREMENT GUIDELINES WITH RESPECT TO THIS SPECIFIC ISSUE. APPARENTLY THE LARGEST SINGLE SOURCE OF SUCH WAIVERS, WHICH ARE NOT TECHNICALLY WAIVERS, ARE FOUND IN A.I.D. PROJECT PAPERS WHICH GENERALLY AUTHORIZE U.S./LOCAL AND THIRD COUNTRY DEVELOPING COUNTRY PROCUREMENT.

MORE-FOLLOW-UP: What, if anything, are you doing about this issue?

ANSWER:

AS I MENTIONED BEFORE, A.I.D. IS UNDERTAKING A REVIEW OF ITS PROCUREMENT POLICY AS WELL AS EXAMINING WAYS IT MIGHT PROVIDE MORE DETAILED PROCUREMENT DATA IN THE FUTURE. THE STATE DEPARTMENT FULLY SUPPORTS THIS EFFORT AND WE ARE ENCOURAGED THAT A.I.D. HAS TAKEN THIS ISSUE SERIOUSLY BY MAKING IT A HIGH PRIORITY.

MILITARY ASSISTANCE TO ISRAEL

SENATOR KASTEN: Given the increasingly hostile rhetoric coming from Israel's Arab neighbors and the proliferation of new weapons of mass destruction in their arsenals, is the United States committed to maintaining current levels of military assistance to Israel in order to maintain its qualitative edge? How important is U.S. aid in supporting Israel's military deterrent?

MR. BARTHOLOMEW: This administration is fully committed to Israel's security and will do all it can to guarantee the maintenance of Israel's qualitative edge over its enemies. U.S. FMS credits enable Israel to purchase the high tech equipment it needs to maintain its qualitative edge.

SENATOR KASTEN: Is the military threat to Israel growing or decreasing at present?

MR. BARTHOLOMEW: The nature of the military threat to Israel is changing. While the possibility of a land-based invasion still exists, the threat of a missile attack is currently a focus of concern.

SENATOR KASTEN: Has the annual $1.8 billion in FMS credits for Israel been sufficient to support the military procurement necessary to maintain its conventional defense? Can you relate to us the impact of cutbacks in Israel's defense budget on the country's military preparedness? Has Israel been forced to suspend, delay or reduce any military procurement from the United States in recent years because of an inability to fund the programs? What are the major defense programs Israel is currently using its FMS credits for, and what are the priority programs over the next five years?

MR. BARTHOLOMEW: We believe that Israel's annual FMS credit allocation has enabled it to maintain its qualitative edge over its enemies. Israel has done a fine job in managing its resources and setting its priorities in order to meet its defense needs. Israel's major ongoing FMS-funded procurement programs are F-16 and F-15 aircraft, Apache helicopters, Merkava tanks, and its SAAR/Dolphin naval modernization program. We expect these to remain priority programs over the next five years.

SENATOR KASTEN: While FMS aid to Israel has remained constant at $1.8 billion per year since 1986, the actual purchasing power of these funds has been considerably eroded by inflation. What is the real value of Israel's military aid today? What measures can be taken to counter this shrinking level of vital assistance to our most important military aid recipient? Will the cost of weapon systems Israel must procure from the United States increase in the next five years because of smaller U.S. military buys of the same equipment (lost economies of scale) and inflation?

MR. BARTHOLOMEW: For 1989, the latest year for which data is available, according to the Consumer Price Index, for example, Israel's annual FMS credits of $1.8 billion would be worth $1.562 billion in 1985 dollars. However, according to the Industrial Goods Index, which more closely approximates the type of goods that Israel buys with its FMS credits, in 1989, Israel's $1.8 billion of FMS credits would be worth $1.673 billion in 1985 dollars. However, we do not believe that either of these indexes can reliably be used to approximate cost increases for military equipment. Moreover, Israel's FMS allotment has fluctuated from $1.7

billion in 1984 and $1.4 billion in 1985 to $1.8 billion in 1986. Israel's FMS allotment was changed from loans to forgiven loans in 1985.

We have sought ways to help Israel obtain the most for its FMS dollar. For example, Israel was able to refinance its FMS loans resulting in a savings of $150 million in interest annually. This past year, Congress enacted Fair Pricing legislation which enables Israel to save approximately $20 million annually. In addition, the U.S. Government funds $480 million worth of purchases of defense-related goods and services and cooperative research and development projects in Israel each year.

Israel's major FMS procurement programs for the next five years are F-16's, F-15's, helicopters, SAAR corvettes, Dolphin submarines, and Merkava tanks. Current Israeli procurement programs for aircraft and helicopters should not be greatly affected by DOD spending reductions.

SENATOR KASTEN: How much of Israel's military assistance is directed back into the U.S. economy? How many man-years of employment are annually generated by Israel's military procurement in the United States? In how many states are Israel's FMS funds spent?

MR. BARTHOLOMEW: During FY 90, $1.225 billion of Israel's $1.8 billion in FMS credits were spent on products manufactured in the U.S. Given the fact that much of Israel's defense procurement in the U.S. is in the high-tech category which is more labor intensive, we can only estimate that Israel's defense procurement in the U.S. generates 35,000-40,000 man-years of employment annually. Israel's defense procurement with FMS credits includes over 30,000 commercial contracts annually in addition to FMS procurements which include the F-16 and F-15 aircraft and Apache helicopters. Much of the work involved in these procurement programs is subcontracted to suppliers throughout the U.S. Thus, it is safe to assume that most, if not all, fifty states benefit from Israel's defense procurement program.

SENATOR KASTEN: As U.S. defense spending is cut back in coming years, in response to the declining Soviet threat, will some of these funds be redirected to America's regional allies, where the threat of instability is still very real? In that context, how would you characterize the situation in the Middle East?

MR. BARTHOLOMEW: Our friends and allies in the Middle East still confront serious threats from regional tensions. The Middle East already receives about 60% of all U.S. foreign assistance. We remain committed to helping our friends and allies meet their legitimate defense needs and maintain regional stability.

U.S. ARMS SALES TO SAUDI ARABIA

SENATOR KASTEN: According to a Congressional Research Report, Saudi Arabia topped the list of arms buyers last year, receiving $4.9 billion worth of arms deliveries. Over the last eight years Saudi Arabia have received arms deliveries totalling $46.7 billion, 15.6% of total arms sales to the Third World.

Why are we currently offering to provide Saudi Arabia with another $4 billion in sophisticated arms on top of the massive arsenal we have provided them over the last 10 years?

MR. BARTHOLOMEW: It should be noted that of the more than $50 billion in U.S. sales of defense equipment and services to Saudi Arabia since the 1950s, less than 15% has gone to the purchase of actual weapons or ammunition. (A sizable portion of this 15% is replacement equipment for similar amounts of outmoded equipment--such as tanks and light armored vehicles--rather than new equipment than would increase the Saudi force structure.) Over two-thirds of Foreign Military Sales agreements with Saudi Arabia are for support services such as construction and training. Another one-fourth has gone for support equipment such as noncombat aircraft and vehicles, communications equipment, and spare parts and modifications. U.S. sales of defense equipment are approved only after careful consideration of all factors, including the effect of such sales on the regional military balance.

SENATOR KASTEN: Does it not seem incongruous that there has been a substantial increase in U.S. arms sales to Saudi Arabia in the last three years at the same time that external threats to the Kingdom have dramatically dropped?

MR. BARTHOLOMEW: The Saudis are defending one quarter of the world's proven oil reserves from potential threats to the east, north, and south. With a relatively small population, they must depend on U.S. technology to defend a country the size of the U.S. east of the Mississippi. The Saudis have felt a particular concern given the history of efforts by states with much stronger military establishments to establish hegemony over the Gulf region. Frankly, we share their concern.

SENATOR KASTEN: At a time when the Administration is working together with the Soviet Union to decrease military support for countries engaged in alarming and destabilizing weapons buildups, how can the Administration justify such a sale?

MR. BARTHOLOMEW: Our decision was made after a lengthy assessment of the impact of these sales on U.S. interests in the Middle East and the security situation there. As a result of our assessment, we concluded that Saudi Arabia has a legitimate need for this equipment, that the sales will not have a negative impact on regional stability, that they will not pose a risk to Israel's security, and that they will serve a number of important U.S. interests.

SENATOR KASTEN: What additional U.S. arms sales to Saudi Arabia can be expected this year?

MR. BARTHOLOMEW: We do not anticipate notifying Congress of any additional U.S. arms sales to Saudi Arabia this year.

SENATOR KASTEN: Press reports have indicated the possibility of a sale of 40 Multiple Launch Rocket Systems--when is this likely to be submitted? Patriot air defense missiles?

MR. BARTHOLOMEW: We do not have a formal request from Saudi Arabia to purchase these items. If we receive a request, we will consider it carefully and consult closely with Congress, but we do not expect such a request this year.

SENATOR KASTEN: What about the Saudi F-5 aircraft replacement program? Have any decisions been reached on the timing or content of the package?

MR. BARTHOLOMEW: The Saudis remain interested in

replacing their aging F-5 aircraft during the mid- to late-1990s. As far as we know, they are at the beginning of their selection process and have not yet decided which aircraft they might select as an F-5 replacement. No decisions have been reached on the timing or content of a possible package.

SENATOR KASTEN: Is there any truth to the report in DEFENSE WEEKLY that the Saudis wish to expand their purchase of M1A2 tanks from 315 to 700?

MR. BARTHOLOMEW: We are aware of Saudi interest in procuring a total of 700 tanks of the same type; however, the Saudis have not requested a second sale of Abrams nor have we had any formal discussions of such a sale with them.

U.S. ARMS SALES TO JORDAN

SENATOR KASTEN: What is the status of the possible sale of Hellfire anti-tank missiles to Jordan, reported in numerous press stories?

MR. BARTHOLOMEW: The Jordanians have expressed an interest in the possibility of placing Hellfire anti-tank missiles on their Cobra attack helicopters. However, to date we have received no formal request from the Jordanians to do this.

QUESTIONS SUBMITTED BY SENATOR ARLEN SPECTER

ISRAEL

SENATOR SPECTER: When does the Pentagon expect to enter into negotiations with the Israeli Minister of Defense on the Arrow Program follow-on Memorandum of Agreement? (Congress needs to know of the Secretary of Defense's decision on Israel's proposal for the 2nd phase of the joint US-Israel Arrow anti-tactical ballistic missile program to know what to appropriate for Fiscal Year 1991.)

MR. BARTHOLOMEW: The Department of Defense is studying very seriously the Israeli proposal to extend the Arrow program. Given the growing threat posed by the proliferation of ballistic missile technologies to U.S. forward deployed forces, our power projection capabilities, and that of our friends and allies, the Defense Department is placing increased emphasis on ATBM activities. It is considering how best to structure an ATBM program to benefit the United States as well as our friends and allies. The decision on a future joint program with Israel will be consistent with our overall approach to ATBM.

SENATOR SPECTER: Why is the Department of Defense holding up supercomputer sales to Israel while at the same time allowing the advanced computers to be sold to Saudi Arabia, Abu Dhabi, and India? (Note India is not a signator to the Nuclear Non-Proliferation Treaty and is a close ally to the USSR.)

MR. BARTHOLOMEW: All supercomputer export license applications are subject to careful review in an interagency process because supercomputers can be used for a range of sensitive national security applications. To protect against misuse, all supercomputer exports, including those to Saudi Arabia, Abu Dhabi, and India, are subject to government-to-government assurances including pledges of no

use for nuclear explosives or other unsafeguarded nuclear activities, end-user certifications regarding appropriate use and U.S. access for verification, and security plans. (Saudi Arabia is also now a party to the NPT and has thus undertaken obligations of no nuclear explosive acquisition or development.) The reviews for export licenses to Israel and to other countries have been lengthy because of the complexity of the conditions necessary to set up an adequate safeguards plan. This problem is particularly complex in the case of computer installations at academic research centers, as in the pending Israeli cases, where oversight of a machine used by a large number of endusers for a multiplicity of purposes is difficult to maintain. The computers that have been exported to Saudi Arabia, Abu Dhabi, and India are essentially for single endusers in petroleum exploration or weather forecasting areas, and appropriate safeguards have been assured.

SENATOR SPECTER: Given the increasingly hostile rhetoric coming from Israel's Arab neighbors and the proliferation of new weapons of mass destruction in their arsenals, is the United States committed to maintaining current levels of military assistance to Israel in order to maintain its qualitative edge? How important is U.S. aid in supporting Israel's military deterrent? Is the military threat to Israel growing or decreasing at present?

MR. BARTHOLOMEW: This administration is fully committed to Israel's security and will do all it can to guarantee the maintenance of Israel's qualitative edge over its enemies. U.S. FMS credits enable Israel to purchase the high tech equipment it needs to maintain its qualitative edge. The nature of the military threat to Israel is changing. While the possibility of a land-based invasion still exists, the threat of a missile attack is currently a focus of concern.

SENATOR SPECTER: Has the annual $1.8 billion in FMS credits for Israel been sufficient to support the military procurement necessary to maintain its conventional defense? Can you relate to us the impact of cutbacks in Israel's defense budget on the country's preparedness? Has Israel been forced to suspend, delay or reduce any military procurement from the United States in recent years because of an inability to fund the programs? What are the major defense programs Israel is currently using its FMS credits for, and what are the priority programs over the next five years?

MR. BARTHOLOMEW: We believe that Israel's annual FMS credit allocation has enabled it to maintain its qualitative edge over its enemies. Israel has done a fine job in managing its resources and setting its priorities in order to meet its defense needs. Israel's major ongoing FMS-funded procurement programs are F-16 and F-15 aircraft, Apache helicopter, Merkava tanks, and the SAAR/Dolphin naval modernization program. We expect these to remain priority programs over the next five years.

SENATOR SPECTER: While FMS aid to Israel has remained constant at $1.8 billion per year since 1986, the actual purchasing power of these funds has been considerably eroded by inflation. What is the real value of Israel's military aid today? What measures can be taken to counter this shrinking level of vital assistance to our most important military aid recipient? Will the cost of weapon systems

Israel must procure from the United States increase in the next five years because of smaller U.S. military buys of the same equipment (lost economies of scale) and inflation?

MR. BARTHOLOMEW: For 1989, the latest year for which data is available, according to the Consumer Price Index, for example, Israel's annual FMS credits of $1.8 billion would be worth $1.562 billion in 1985 dollars. However, according to the Industrial Goods Index, which more closely approximates the type of goods that Israel buys with its FMS credits, in 1989, Israel's $1.8 billion in FMS credits would be worth $1.673 billion in 1985 dollars. However, we do not believe that either of these indexes can reliably be used to approximate cost increases for military equipment. Moreover, Israel's FMS allotment has fluctuated from $1.7 billion in 1984 and $1.4 billion in 1985 to $1.8 billion in 1986. Israel's FMS allotment was changed from loans to forgiven loans in 1985.

We have sought ways to help Israel obtain the most for its FMS dollar. For example, Israel was able to refinance its FMS loans resulting in a savings of $150 million in interest annually. This past year, Congress enacted Fair Pricing legislation which enables Israel to save approximately $20 million annually. In addition, the U.S. Government funds $480 million worth of purchases of defense-related goods and services and cooperative research and development programs in Israel each year.

Israel's major FMS procurement programs for the next five years are F-16's, F-15's, helicopters, SAAR corvettes, Dolphin submarines, and Merkava tanks. Current Israeli procurement programs for aircraft and helicopters should not be greatly affected by DOD spending reductions.

AID TO PAKISTAN

SENATOR SPECTER: In January of this year, I travelled to Pakistan. In my discussions with Prime Minister Bhutto, I raised the issue of the disturbing proliferation of nuclear and missile weaponry in a region which has been and continues to be highly volatile. I am particularly concerned that Pakistan has failed to sign any international agreements which would help eliminate the threat of a nuclear confrontation in South Asia. These concerns lead me to three broad questions regarding the level and type of U.S. aid to Pakistan:

- Given the proven nuclear capability of India, reports that Pakistan maintains a nuclear capability, and the heightened tensions between these two nations over the disputed region of Kashmir, is U.S. military aid exacerbating an already volatile situation or is it maintaining a peaceful balance?
- Given the current status of the conflict in Afghanistan, does the present level of military aid to Pakistan continue to be justified?
- Would a reduction in aid to Pakistan, or an elimination of the Congressional earmark, send signals to the Pakistani military and to India that U.S. support for Prime Minister Bhutto's fragile government is wavering, thereby causing further instability in the region?

MR. BARTHOLOMEW: In our view, our military assistance to Pakistan serves the U.S. interest in regional stability in South Asia. Our military assistance maintains Pakistan's defensive capabilities. By providing Pakistan with a strong defensive force, we reduce the incentive for it to acquire a

nuclear arsenal. The level of aid to Pakistan continues to be justified by Pakistan's close cooperation with us on such key issues as Afghanistan. A reduction in military aid to Pakistan could engender further instability in the area by upsetting Pakistan's calculation of the balance of forces with India. Within Pakistan itself a reduction in U.S. military assistance could put strains on the democratically elected government.

ISRAEL

SENATOR SPECTER: How close is the United States to developing a limited anti-ballistic missile defense system against accidental launch or a third world ballistic missile threat? Is the technology available to deploy "Brilliant Pebbles," and, if so, what is your estimation of the costs?

AMBASSADOR BARTHOLOMEW: The Department of Defense is responsible for the management of activities related to the Strategic Defense Initiative including, among other things, the planned architecture, required technology to implement the architecture, cost, and schedule. Technologies required for developing a limited anti-ballistic missile defense system against accidental launch or third world ballistic threats are the same technologies that are required to implement a Strategic Defense System as envisioned by the Department of Defense. With regards to "Brilliant Pebbles," the DOD has laid out a program for developing this concept. This program includes tests aimed at developing and proving various technologies, as well as, reducing technical and management risks. The cost of a Strategic Defense System based upon Brilliant Pebbles highly depends on the architecture and pace of both the development and deployment.

ANDEAN COUNTRIES (ANTI-NARCOTICS INITIATIVES)

SENATOR SPECTER: With the current funding request for assistance in antinarcotics efforts for the Andean countries--I note specifically $20 million for Colombia, $19 million for Peru, and $15.7 million for Bolivia--could you please describe the scope of these undertakings with reference to the individual countries? What is the nature of U.S. military involvement? What type of equipment shortfalls are these countries experiencing? Finally, what criteria would you suggest go gauge the success of these programs?

MR. BARTHOLOMEW: The funding referred to for the three Andean countries is the law enforcement component of the Andean Narcotics Strategy for FY 90. DOD is providing an additional $125 million to support the efforts of the Andean military in fighting the narcotics problem.

The main focus of this law enforcement and military funding is to work with the Andean Governments to increase the effectiveness of the intelligence, military and law enforcement activities against the cocaine trade in the three source countries, particularly by providing air mobility for both military and police forces and making sure they are well equipped and trained and that they cooperate in an integrated strategy. Specific objectives include efforts to isolate key coca growing areas, block the shipment of precursor chemicals, identify and destroy existing labs and processing centers, control key air corridors, and reduce net production of coca through eradication when it is effective to do so.

Both the military and police agencies involved in Andean counter-narcotics operations lack the necessary training and equipment to effectively combat the narcotics trafficking networks. Equipment shortfalls include ammunition, small arms,

web gear, communications, transport vehicles, aircraft and miscellaneous spare parts that are required to support the above equipment.

There is also a need to provide basic military training, such as marksmanship, as well as advanced training in the use of the equipment which we provide. DOD will provide U.S. military training teams to each of the three countries as requested by their governments to conduct the necessary training. These U.S. military personnel will be restricted to a training role; U.S. military personnel are prohibited from going on counter-narcotics operations or accompanying host country forces into the field.

Ultimately, the success of the Andean Narcotics Strategy will be based on the reduction of cocaine entering the U.S. from the Andes. Specifically, we are discussing with Colombia, Peru and Bolivia mutually acceptable and practical goals in the areas of narcotics interdiction, eradication and economic redevelopment, which will indicate progress in dismantling the cocaine trafficking networks:

DEPARTMENT OF DEFENSE
QUESTIONS SUBMITTED BY SENATOR ROBERT W. KASTEN

NEED FOR MILITARY ASSISTANCE

SENATOR KASTEN: There has been a great deal of speculation that events in Eastern Europe are diminishing the need for military assistance. Are there instances around the globe where you see local situations requiring more military assistance?

MR. ROWEN: Yes. The majority of our security assistance relationships have been with countries whose primary threat was not the Soviet Union. NATO allies such as Turkey also face threats unaffected by the positive turn of events in Eastern Europe. In fact, the decline in the Soviet threat in Europe, in conjunction with instability in the Soviet Caucasian republics, exacerbates Turkish security problems.

The Middle East is another area where the need for military assistance has not been diminished by the events in Eastern Europe and the Soviet Union. A major concern in this region particularly, is the proliferation of chemical weapons and ballistic missiles, and even nuclear weapons

In Asia too, the need for military assistance has not been greatly affected by events in Eastern Europe. The slight reductions in Soviet forces at Cam Ranh Bay have not really altered the strategic picture in the Pacific. In Central America and the Andean region the economies are weak, democracies fragile and the narcotics trade is violent. These are serious sources of instability, and require more military assistance than we have been able to provide.

DEFENSE SECURITY AGENCY
ADDITIONAL COMMITTEE QUESTIONS

BUDGET REQUEST

SENATOR LEAHY: On May 1, Secretary Baker told this subcommittee, in substance, that this is the last "business as usual budget," and next year it will be very different. How do you foresee your request changing--I don't mean in detail, but in overall concept? Do you see us beginning a secular decline in military aid?

GENERAL BROWN: As requested by the State Department, we have deferred to them on this question.

MILITARY AID TO FIGHT DRUGS

SENATOR LEAHY: Given the Peruvian military's record on human rights--Amnesty International says the military uses the same brutal tactics as the guerrillas--what is the administration doing to ensure that our equipment will not be used for these same kinds of abuses?

GENERAL BROWN: Response to this question must be given in a context larger than military assistance alone, and we have decided the Department of State is the proper agency to provide this response.

MILITARY AID TO FIGHT DRUGS

SENATOR LEAHY: Peru's President-elect Fujimori has said economic aid, not military aid, is what his country needs to overcome its dependence on coca. Has the Peruvian government agreed to your plan to dramatically increase military aid?

GENERAL BROWN: Response to this question must be given in a context larger than military assistance alone, and we have decided the Department of State is the proper agency to provide this response.

IMET

SENATOR LEAHY: According to the GAO report on IMET, US officials in Guatemala "had no data on how IMET graduates were used when they returned from training." In Haiti, there was "no formal method for tracking" IMET graduates. The same was true of Peru. On what facts, at least in these three countries, do you base your conclusion that IMET is "our most cost effective foreign assistance program?"

GENERAL BROWN: In all but a handful of the 95 countries in the program, IMET is well-managed and is run in accordance with U.S. objectives. There is abundant evidence that IMET is in fact our most cost-effective program, as a recent Administration study concluded, and as the recent GAO report you refer to confirmed.

There have been some problems in managing the program in Guatemala, Haiti and Peru. These nations have all experienced recent turmoil, and do not always keep detailed records. The program has been interrupted in Haiti and

Peru due to Brooke-Alexander sanctions, and in Guatemala due to sanctions under Sec. 620(q). Thus, tracking of IMET graduates has proved difficult. Tracking officers in the Haitian military is particularly problematic, as they are frequently transferred on short notice from one service to another. According to the current commander in Haiti, he doesn't yet have a good handle on how many personnel he has, let alone where they received their schooling.

However, despite some management challenges, the IMET program in all these countries is proving its worth. The GAO report states: "officials in Guatemala, Haiti and Peru said that the IMET Program contributed to professionalizing their armed forces and emphasized that this was important if democracy was to continue flourishing."

SENATOR LEAHY: What are examples of countries where we have IMET programs where "the military is one of the only functioning modern institutions?"

GENERAL BROWN: This is the case in much of the Third World. In Africa, particularly, where national boundaries cut across tribal and ethnic lines, the military is often a unifying force. Malawi and Niger are good examples of countries where the military is one of the few functioning institutions. In countries such as Zimbabwe, Senegal and Ecuador, while the military is not the only, it is one of the few functioning institutions.

SENATOR LEAHY: What are some examples of how IMET training led to foreign militaries playing "significant, productive roles in nation building?"

GENERAL BROWN: Nation building, in the broadest sense, consists of building the infrastructure, facilities and services that are essential to a functioning nation-state. Good examples are African countries where IMET-trained students participate in the projects under the African Civic Action (ACA) program. In Mauritania, bridge and urban housing projects have recently been completed under the direction of the IMET-trained head of the Mauritanian Army engineers. Between FY1985 and FY1989, there have been some 38 projects funded under the African Civic Action programs in 23 Sub-Saharan countries, all of which are also IMET participants.

Another good example is IMET training in conjunction with the African Coastal Security (ACS) program. Under this program naval/coast guard students from West African countries such as Cape Verde, Equatorial Guinea, Guinea, Guinea-Bissau, Ivory Coast, Mauritania, Sao Tome & Principe, Sierra Leone and Togo are trained to protect their coastal resources from the depredations of foreign fishing fleets that would otherwise blatantly ignore the limits of territorial waters.

Another example is small island nations like Fiji and Tonga, where students taking courses in propulsion systems engineering, engine repair, hydrographic survey and oceanic search and rescue make a contribution to their societies that goes far beyond military readiness and efficiency.

IMET training for the countries of the Eastern Caribbean (Antigua-Barbuda, Barbados, Dominica, Grenada, St. Kitts & Nevis, St. Lucia and St. Vincent & the Grenadines) aids these small island nations to develop

their coast guards, enabling them to perform civilian search and rescue, as well as counter-narcotics missions.

SENATOR LEAHY: The GAO reports that the IMET program "encourages the purchase of U.S. equipment." Is this a goal of the program?

GENERAL BROWN: No. IMET is not and is not intended to be a marketing tool for U.S.-origin military equipment. However, foreign military personnel are exposed to and become familiar with U.S. equipment during training. When they return to their own countries they may have a certain predisposition towards U.S. equipment that can influence procurement decisions.

SENATOR LEAHY: On average, what training in human rights does an IMET participant receive? What methods are used to teach IMET participants about the proper relationship between civilian government and the armed forces?

GENERAL BROWN: The training and methods employed are twofold: first, instruction that is part of the formal training for which the student came to the U.S. and second, the DoD Informational Program (IP).

Most IMET participants in this country attend courses side-by-side with and receive the same instruction as their U.S. counterparts. Professional military education and training courses include specific instruction on matters related to human rights. This involves formal instruction at the mid-level staff and senior war colleges. The program of instruction at the other U.S. military professional schools involving combat arms also embraces application of the laws of war as set forth by the Geneva Conventions and other principles of moral and military conduct sometimes described as the "Nuremberg Principles." In both instances, emphasis is placed upon the moral and ethical considerations concerning legitimate warfare and the human rights of civilian non-combatants and prisoners of war. Finally, some U.S military professional schools include in the instruction the Universal Declaration of Human Rights, the U.S. system of government and the U.S. Government national defense decision-making process.

In addition and for most trainees, the Department of Defense Informational Program (IP), with its emphasis on exposure of foreign military trainees to U.S political and social values, is the principal method used to make trainees aware of human rights issues. Moreover, although not required by the Arms Export Control Act, the Executive Branch has also chosen to provide this same awareness training to Foreign Military Sales students.

The IP is designed specifically to give foreign military students a balanced understanding of U.S. society, institutions and goals and the way in which these factors reflect our commitment to the basic principles of internationally recognized human rights. The program exposes the trainees to various facets of American life including private homes, business, and local and national government institutions.

Both inside and outside the immediate classroom, every attempt is made to expose foreign students to all facets of democratic values and American life and the way which they reflect U.S. commitment to human rights. The U.S. General

Accounting Office noted in its recent report on IMET that "in accordance with the IMET program's policy objectives, students are being exposed to U.S. values and concern for human rights through formal training and cultural events in the United States."

SENATOR LEAHY: The GAO mentions several other U.S. training programs for foreign military officers, including the "Personnel Exchange Program," Reciprocal Unit Exchange Program," and "Latin American Cooperation Program." Which U.S. agency oversees and evaluates the effectiveness of these programs? Have written evaluations been done on these programs?

GENERAL BROWN: These programs are not training programs in the sense of individual education and training and the IMET or FMS training programs. These programs are under the purview of the Military Departments which have the responsibility to oversee and evaluate their effectiveness. Finally, while the Reciprocal Unit Exchange Program is authorized under Sec. 30A of the Arms Export Control Act, per that Act no IMET, MAP, and FMS cash or credit funds may be used for reimbursement or to meet the expenses of the exchange.

IMET COSTS

SENATOR LEAHY: GAO reports that in Peru, Guatemala, South Korea and Spain, military officers received training under both IMET (free) and the FMS training program (full cost). This shows countries will buy FMS training if they think they need it. Why should we give free training when countries will pay for the same training?

GENERAL BROWN: We should encourage the countries to buy the training they need, rather than provide them with IMET funds to accomplish it. In practice, however, the vagaries of budgets and training requirements often create circumstances where both FMS and IMET training is in the best interest of the U.S., such as when their budget is insufficient to support their mission requirements and movement toward training self-sustainment. Moreover, IMET provides us with the control to be selective in accordance with U.S. objectives, to encourage them to take Professional Military Education (PME) courses, rather than technical training.

Consequently, except for the more developed countries, most countries will pay for training to support defense materiel or other technically-oriented training only. The benefits of such training are immediately evident to them. On the other hand, most of the training accomplished under IMET is designed to foster non-systems related training and its benefits are long-range in scope. This is particularly true in the case of training in command and staff skills. Even in countries where economic hardship is not critical, the higher cost of FMS training often causes foreign governments to look elsewhere, regardless of the level or type of training. In the final analysis, the PME training emphasized by IMET has the highest likelihood of advancing U.S. foreign policy and national security interests.

SENATOR LEAHY: Why should we be paying tuition for officers from countries like Austria, Oman, South Korea, Singapore, Ireland and Finland? These are rich countries. Are they so ambivalent about this program that they cannot scrape up the money to pay for their own officers?

GENERAL BROWN: Providing IMET for these countries is in the U.S. interest. Without IMET funding, these countries would not send their students to the States and we would lose a valuable opportunity to establish political as well as military-to-military ties.

By providing IMET funding, we can ensure that students take Professional Military Education courses, where special relationships are more likely to be formed with their U.S. counterparts, as opposed to the technical courses these countries would otherwise tend to purchase.

Moreover, in some cases, these countries provide unique training to U.S. personnel free of charge, as reciprocity. For example, Austria provides access to its peerless alpine training school and mountain helicopter training.

With respect to Oman, for many years this country's military was staffed and led by British officers. Now a process of "Omanization" is taking place. It is important to expose Omani officers to the principles of an apolitical military, as well as to enhance our military-to-military relationships with this strategically located country.

South Korea is an emerging democracy, with a strategic location and growing economic strength that make military-to-military ties especially valuable. However, in recognition of the recent economic progress of South Korea, and of several other countries as well, we have begun a ramp-down of their IMET funding. The same is true for Singapore, where we have requested 150% less IMET funding than we allocated in FY90.

Finland and Ireland are both strategically-located neutrals, with whose militaries it is in our interest to maintain ties. The very small amounts requested for these countries enables them to purchase training at the IMET rate, further encouraging the establishment of valuable military relationships. As noted above, it also allows us to ensure that students take Professional Military Education courses.

SENATOR LEAHY: Another issue is IMET training for countries like Zaire--$1 million, Kenya--$1.1 million, Liberia--$500,000, Nepal--$100,000. These are only four examples. Their militaries are hated and feared by the people of those countries. Why is it in the interests of the U.S. to be supporting the very institution that is being used to thwart free expression in these countries? What tangible benefit can you point to resulting from IMET training in those countries?

GENERAL BROWN: First of all, it is not accurate to speak of all of these countries' militaries as being hated and feared. The Kenyan armed forces have become one of the most professional, apolitical militaries in Africa. Their special riot police, the GSU, however, are not IMET-trained. Nepal is not a good example either. While the military was involved in recent, isolated instances of riot-suppression, the Nepalese Army has a long, apolitical tradition of military professionalism. Service either in

the Army or in the prestigious Gurkhas is a respected career for many Nepalese.

More generally, it is in the U.S. interest to maintain contacts because without IMET, we have no opportunity to influence the militaries of these countries at all. IMET training does not support foreign militaries as such. Rather, it provides important professional and technical training to select members of those militaries, many of whom rise to the top of their profession. As a result, the U.S. benefits in terms of increased access and military-to-military links. In a large number of countries, IMET-trained personnel have played a positive role in moving the military towards greater professionalism and respect for human rights.

However, there are cases where the opposite has occurred. A nation's political system, and the role of the military within it, is not easily susceptible to change from the outside. Nevertheless, given the modest resources available for IMET, we believe that it has enabled the U.S. to reach and influence thousands of military personnel who subsequently have achieved prominent positions in their societies and who have been strong adherents of democratic practices.

Finally, it should be noted that dissatisfied elements in several countries frequently include IMET graduates who, after their exposure to U.S. training, become disillusioned with the political or military situation at home.

IMET PROGRAM

SENATOR LEAHY: Why don't you have a serious system to evaluate the IMET program? What are you going to do to set up a serious evaluation system?

GENERAL BROWN: The IMET program is carefully evaluated every year, starting with the Annual Integrated Assessment of Security Assistance (AIASA) by country, which describes U.S. politico-military objectives in each country and includes an analysis of IMET funding levels for each country. Two year training programs are then prepared that include current and future U.S. training objectives. These country programs subsequently are reviewed at training workshops by the Unified Commands, Military Departments and the Defense Security Assistance Agency (DSAA). This systematic process ensures that the IMET program supports the nation's foreign policy goals and is being managed efficiently. Last, DSAA reports on the number of graduates who have achieved positions of prominence and reviews the results of the Unified Command inspections that determine whether Security Assistance Organizations have complied with program administrative requirements.

The IMET program is an extremely useful foreign policy tool that educates future leaders of foreign militaries in the U.S. These young officers almost always rise to positions of prominence in their militaries while keeping their ties to the U.S. built through the IMET program.

As for a new system to evaluate the program, we are presently considering, in coordination with the Unifed Commands, the evaluation process to determine ways in which it can be improved.

SENATOR LEAHY: What is the reason for [asking for $1.5 million in FY 91 IMET funding for Spain]? Are you requesting IMET for Spain because of a commitment made in a Treaty eight years ago, even though they tell us they do not want our military aid?

GENERAL BROWN: The FY 91 IMET funding request for Spain supports Spain's modernization efforts and commitment to NATO and assures a pool of Spanish officers trained and experienced with U.S. equipment and defense systems. Our funding request is not related to our Defense and Economic Cooperation Agreement (DECA) with Spain.

However, we are progressively ramping down Spain's IMET funding. In FY87 we allocated $3M, in FY88 $2.5M, in FY89 $2M and in FY90 $1.9M. We expect to ramp Spain's IMET funding down even further in FY92 and beyond.

IMET

SENATOR LEAHY: Are you aware that [the GAO found in Spain the IMET program is indirectly providing free commercial pilot training]? What are you doing to be sure the U.S. taxpayer is not subsidizing Spanish commercial pilots through IMET?

GENERAL BROWN: We have received no indication that the IMET program is indirectly subsidizing Spanish commercial pilots. However, pilot retention problems are endemic to all western air forces, including the U.S. Air Force.

Administration policy is to authorize the use of IMET funds for pilot training on an exceptional basis only. Spain is currently one of a very limited number of countries authorized to use IMET funds for pilot training. This was done to help Spain support introduction of F/A-18 aircraft into its air force. However, the IMET ramp-down that will limit Spain's funding to $300,000 or less by FY1992 will effectively constrain Spain's ability to use IMET funds for pilot training in the future.

QUESTIONS SUBMITTED BY SENATOR ROBERT W. KASTEN

DSAA BUDGET

SENATOR KASTEN: Gen Brown, as I am sure you know, virtually every agency and department of the U.S. Government must fully justify and get approval for its operating expenses from the Congress. DSAA is an exception to that rule. Can you tell the committee what the size of your administrative budget is, outside of the $40 million that we appropriate?

GENERAL BROWN: Our FY1990 worldwide security assistance administrative budget requirement is currently estimated to be $317 million including the $29 million appropriation we received in the foreign military financing account for the non-FMS segment of the program. Prior to the passage of fair pricing legislation, we had estimated our FY1990 administrative budget costs to be $375 million, including an appropriation of $39 million to finance the non-FMS portion. This budget finances the security assistance administrative activities of the

military departments and defense agencies as well as DSAA in CONUS and our overseas security assistance offices (SAOs).

By way of background, security assistance budget requirements fluctuate considerably depending on volume of military sales orders and workload, projected proceeds which are paid by foreign purchasers into the administrative fund, and the general status of our overall USG-owned equity accounts, which include not only the administrative fund but also funds to pay for logistics support costs, contract administration services, transportation of equipment, and attrition losses for training programs. For example, between the period of FY1986 and FY1989, we were able to reduce program administrative costs from the FY1986 level of about $450 million to an FY1989 amount of about $387 million. This belt tightening effort, which preceded any effects of the fair pricing legislation, prevented the need to increase the current 3% surcharge applied to all foreign military sales cases.

SENATOR KASTEN: Why don't you justify this amount in detail before committees of Congress?

GEN BROWN: Section 21 of the Arms Export Control Act requires us to establish an administrative surcharge rate, to be applied to all sales, to cover the cost of administering the military sales program. About 91% of all proceeds to the administrative budget come from this source, i.e., the foreign purchaser, with the remainder being appropriated by the Congress for the non-FMS portion of the program. Based on this legislation, we developed the current budgeting system which has worked well over the past fifteen years. As I indicated earlier, the process of developing the administrative budget requires a careful calibration of estimates of proceeds to the fund of future sales, workload variance, and relationships between administrative costs and proceeds to similar costs and proceeds of other parts of the program which are paid for with surcharge rates. The budget process involves a number of levels of review within the Military Departments, Unified Commands, and defense agencies. The management controls established over the administrative budget and its accounting are subject to at least equal scrutiny, internal and external audit and reporting as the other $3.7 billion of non-appropriated Defense funds. These funds are not required to be justified to or appropriated by the Armed Services Committees since Treasury only holds these funds in trust for Defense.

To the best of my knowledge, we have responded in detail to any questions that the various committees of Congress have asked about the fund. We also provide the detailed information required by Section 25(a) of the AECA. However, since the cost of administration of the sales program is paid by foreign purchasers, as required by the Arms Export Control Act, we have not had to request the funds from Congress over the past fifteen years that the current system has been in effect.

SENATOR KASTEN: Do you not agree that congressional oversight of these expenditures is a proper role for this committee?

GENERAL BROWN: The security assistance program and administrative budget does not suffer from lack of oversight. Over the years, we have continually been audited by the GAO and DODIG and have always cooperated with the congressional staffs to provide any information and data requested regarding our operations.

SENATOR KASTEN: What would DSAA's position be if we required through legislation that at least your expenditure of all administrative funds be limited if not appropriated outright?

GENERAL BROWN: The Administration would be opposed to such a requirement. As I have indicated, we believe that the process has worked well over the last fifteen years. We have an obligation, both to our foreign purchasers who are paying the costs, and to U.S. industry which is providing the products, to assure that adequate financing is provided to make sure that the program is properly administered. An underfunded program, or a budget which is not properly responsive to fluctuating military sales levels, could result in major customer dissatisfaction with DoD's efforts to administer both the FMS program and the many direct commercial sales programs in which we participate. This fact certainly was recognized by the Secretary of Defense when he excluded FMS financed personnel from the DoD-wide hiring freeze which was placed into effect earlier this year. He recognized that we had a contractual obligation to continue to hire people to administer programs for which the foreign purchasers were paying.

I also would be concerned about the possible Gramm-Rudman-Hollings effects of such a requirement since, as I understand it, authorized or appropriated administrative funds would be subject to sequester. If so, this would put us in the untenable position of reducing the administrative budget and the associated management effort to implement security assistance programs notwithstanding that foreign purchasers had already paid for those costs, many with national funds.

We have an inherent interest, as well as an obligation to our purchasers, in assuring that the administrative budget is kept to the lowest level consistent with providing first class program administration. To do otherwise would require increases in surcharge rates, which in turn would result in making U.S. military products less attractive in the competitive foreign market. On the other hand, our budget must be sufficient to provide program execution which will lead to a satisfied, repeat customer.

As a final thought, if our administrative budget is too low, there is a likelihood that our Military Departments would be inclined to charge additional costs directly to FMS cases to make up the difference. This would have the effect of double charging the customer.

I think that the track record of actions which resulted in an overall budget reduction of 14%, between 1986 and 1989, indicates without a doubt that these foreign funds are being managed prudently. So, in my view, we should not fix what is not broke.

SENATOR KASTEN: In how many countries do you operate, and what is your projected F.T.E. for fiscal year 1991?

GENERAL BROWN: We estimate that our FY1991 F.T.E. work years will be 6,377, which includes 315 local national employees. We sell to over 100 countries, of which 73 countries have security assistance offices or security assistance augmentee personnel assigned to the defense attache office. Of course, the majority of the work years are performed in the DoD military departments here in the U.S., which are responsible for administering a program which has projected sales of around $10 billion a year.

D.S.A.A.

SENATOR KASTEN: As you know, there are many people who feel that the very existence of DSAA should be the subject of a DoD management review. Do I correctly understand that the functions which your agency currently carries out used to be under the Assistant Secretary of Defense for International Security Affairs? Why was that function split out of the ISA function?

GENERAL BROWN: Yes, that is correct. The Defense Security Assistance Agency was established in August 1971. Prior to that, DSAA's functions were carried out by two offices in the Office of the Assistant Secretary of Defense for International Security Affairs: The Office of the Director for Military Assistance and the Office of the Deputy Assistant Secretary for International Logistics Negotiations. Establishing DSAA as a separate entity was designed to place increased emphasis on the management and control of the DoD portion of the security assistance program. DSAA must be in a position to keep all concerned elements of DoD and the security assistance community informed about the status of ongoing security assistance actions and to raise issues through appropriate channels when decisions of higher authority are required. Nevertheless, DSAA is still an organic part of the Office of the Under Secretary of Defense for Policy reporting to the Under Secretary through the Assistant Secretary of Defense for International Security Affairs.

I would also point out that DSAA was recently the subject of a thorough management inspection by the DoD Inspector General. The IG did not find anything in the course of their inspection to cast doubt on the need for DSAA to exist. Also, security assistance (and by extension DSAA) is being studied for possible management improvements and streamlining in Secretary Cheney's ongoing Defense Management Review.

CONCLUSION OF HEARINGS

Senator LEAHY. The subcommittee will stand in recess awaiting the call of the Chair.

[Whereupon, at 11:05 p.m., Friday, June 22, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1991

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

DEPARTMENTAL WITNESSES

[CLERK'S NOTE.—The subcommittee was unable to hold the hearings on departmental witnesses, but the statements of those submitting written testimony are as follows.]

[The statements follow:]

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF AMERICAN SCHOOLS AND HOSPITALS ABROAD

[CLERK'S NOTE.—The subcommittee was unable to schedule a hearing for the following Departments and Agencies.]

STATEMENT OF DAVID SANTOS, DIRECTOR

Thank you for inviting us to submit testimony on behalf of the Agency for International Development's Office of American Schools and Hospitals Abroad.

The Office of American Schools and Hospitals Abroad (ASHA) assists private, non-profit institutions which serve host-country citizens. These institutions are recognized as American by their founding or sponsorship by U.S. citizens and the active participation of Americans in their delivery of educational and medical services.

These institutions meet all or most of their operating expenses from non-governmental sources. ASHA grants help to build and renovate facilities, to purchase equipment and, in a few cases, to meet the costs of operating educational and medical programs.

Grants are awarded annually on a competitive basis following assessment of applications by experts from within and outside the Agency. Applicants are evaluated against program criteria and funding proposals for need, impact and cost-effectiveness.

FISCAL YEAR 1991 REQUEST

A.I.D. requests $23 million for the ASHA program for FY 1991. This includes $3 million of convertible Polish zlotys to continue construction of the Zablocki Ambulatory Care Center at the American Children's Hospital, Krakow, Poland. The Center is scheduled for completion in mid-1991.

A.I.D. has and will continue to encourage applicants to reduce requests to ASHA and take steps toward greater self-sufficiency. This applies especially to annual and periodic recipients of long standing but also to recent recipients and new applicants.

Improvements made during the past decade in the diversity and geographic distribution of the ASHA program can be sustained only with smaller ASHA grants and greater institutional resourcefulness. Steps toward greater self-sufficiency include increasing income from individual contributors, corporate and private foundations, tuition and fees and the sale of services.

PROGRAM AND INSTITUTIONAL IMPACT

The achievement of the United States' developmental and foreign policy goals is facilitated when others share American values. American-sponsored schools and hospitals overseas create opportunities for continuing relationships between Americans and citizens of other countries. By serving as study and demonstration centers for U.S. ideas and practices, they promote justice, democracy and respect for the individual, as well as private initiative, free inquiry and innovative approaches to problem solving.

ASHA-financed buildings and equipment provide the physical infrastructure to strengthen institutional services and expand the numbers of knowledgeable, skilled and healthy individuals able to contribute to economic and social progress. Laboratory, library, classroom, clinical and dormitory buildings and medical and scientific equipment permit institutions to increase the numbers of students or patients served, to undertake research, introduce new courses, upgrade curricula, improve public health, and better diagnose and treat disease.

ASHA-assisted institutions educate future leaders and those already in the work force in a variety of disciplines essential to broad-based and sustained growth. These include agriculture, economics, business and public administration, medicine, nursing, public health, education, engineering and the arts and sciences. Their use and adaptation of American methods contributes to political, social and economic pluralism and to the training of persons who can communicate, share values and work with Americans in business, government, the sciences and other mutually beneficial endeavors.

ACCOMPLISHMENTS IN 1989

In 1989, 77 American-sponsored schools and hospitals in 40 countries were undertaking ASHA-financed projects. These institutions annually

educate over 200,000 students from more than 100 countries. They serve more than 4 million persons each year at hospitals which link patient services with medical education and research.

Twenty-one ASHA-assisted projects were completed in 1989. They are as follows:

-- Science laboratories at the American Collegiate Institute, Izmir, Turkey;

-- A college of nursing at the Bangkok Adventist Hospital in Thailand;

-- A center for social research and continuing education at Notre Dame University, Cotobato City, Philippines;

-- An educational training center for medical assistants at the Malamulo Hospital, Makwasa, Malawi;

-- Additional classrooms, laboratory and library facilities at the Tarsus American School in Turkey;

-- A health sciences building and nurses dormitory at the Ludhiana Medical Center in India;

-- Diagnostic and surgical facilities at the Nancy Fulwood Hospital at Sahiwal, Pakistan;

-- A library and computer center at Anatolia College, Thessaloniki, Greece;

-- A school of nursing at the Sanz Laniado Medical Center, Netanya, Israel;

-- Laboratories for chemistry, biology, physics and computer sciences at Robert College, Istanbul;

-- An outpatient and maternal-child health building at Tenwek Hospital, Bomet, Kenya;

-- Classroom, laboratory, library, and administrative facilities at the American University of Les Cayes in Haiti;

-- Diagnostic and patient care facilities at the Mother and Baby Hospital, Jerusalem;

-- Expansion of diagnostic and surgical facilities at Hospital de la Familia in Nuevo Progreso, Guatemala;

-- Classroom, laboratory, library and administrative facilities at the Sampedrana International School, San Pedro Sula, Honduras;

-- Expansion of the Blegen and Gennadius Libraries at the American School of Classical Studies, Athens;

-- Student housing at the Ohr Somayach College for Women, Jerusalem;

-- An expanded outpatient and ambulatory care surgical unit at the Shaare Zedek Medical Center, Jerusalem;

-- Maternal-child health and patient care facilities at Mugonero Hospital, Kibuye, Rwanda;

-- Renovation of a classroom and administration building and faculty housing at the Center for American Studies at Fudan University, Shanghai, China; and

-- Surgical and patient care facilities at the Sino-American Medical Center, Shanghai, China.

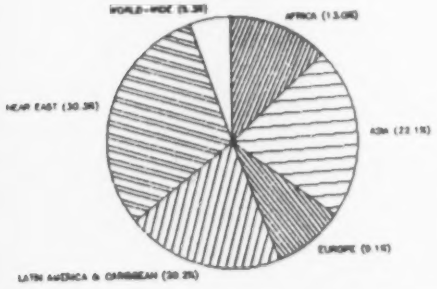
In addition, ASHA grants during 1989 played an important role in ensuring the survival of the American University of Beirut; assisting the medical education programs of Project HOPE and Project ORBIS in 25 countries; financing medical and scientific equipment to maintain the leadership role of the Hadassah Medical Center in health services and the Feinberg Graduate School of the Weizmann Institute of Science in the natural sciences; continuing a program of exchanges in pediatric medicine between health professionals of Poland and the United States and financing construction of the Zablocki Ambulatory Care Center at the American Children's Hospital in Krakow, Poland.

FIVE YEAR OVERVIEW

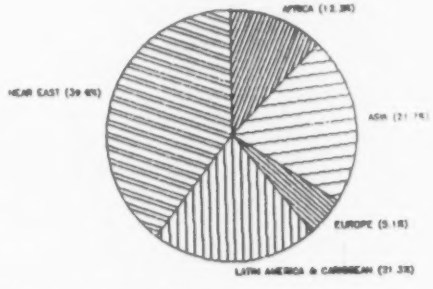
During Fiscal Years 1985-1989, ASHA made 206 grants totaling $172 million for the benefit of 90 institutions. Forty-seven million dollars (27%) assisted 41 institutions (45%) new to the program during that period. Newly assisted institutions are in Belize, Cameroon, China, Ecuador, Egypt, Greece, Haiti, India, Israel, Kenya, Korea, Lesotho, Micronesia, Pakistan, Philippines, Sri Lanka, Thailand, Turkey, Zaire, Zambia and Zimbabwe. The attached table provides information on ASHA grants by region, country and institution, with asterisks indicating first-time recipients during the five-year period.

The following charts show the distribution of ASHA grants and dollars over the five-year period.

DISTRIBUTION OF GRANTS
FYs 1985-1989



DISTRIBUTION OF FUNDS
FYs 1985-1989



Attachment: Grants by Region, Country and Institution, FYs 1985-1989

AMERICAN SCHOOLS AND HOSPITALS ABROAD

GRANTS by REGION, COUNTRY, and INSTITUTION - FYs 1985-1989
(in thousands of Dollars)

Country	Institution		FY'85	FY'86	FY'87	FY'88	FY'89	TOTALS
AFRICA		[	3,290 +	2,900 +	3,545 +	3,125 +	3,472	= 16,332]
Botswana	Kanye Medical Center			800				800
	Maru a Pula School		425			125		550
			425	800	0	125	0	1,350
Camercon	Central Hospital d'Enongal	*	325		325			650
			325	0	325	0	0	650
Kenya	Outward Bound School	*				250		250
	Tenwek Hospital	*			500			500
	University of Eastern Africa	*					500	500
			0	0	500	250	500	1,250
Lesoth	Maluti Adventist Hospital	*					500	500
			0	0	0	0	500	500
Liberia	Cuttington University		600	700	720	300		2,320
			600	700	720	300	0	2,320
Malawi	Malamulo Hospital		700	550			350	1,600
			700	550	0	0	350	1,600
Zaire	Good Shepherd Hospital		550	850	800	900	550	3,650
	Institute de Kama	*					122	122
			550	850	800	900	672	3,772
Zambia	Macha Hospital	*			200			200
	Mwami Adventist Hospital		690					690
			690	0	200	0	0	890

DURING THE LAST FIVE YEARS, ASHA ASSISTANCE HAS BENEFITTED 90 INSTITUTIONS. ASTERISKS (*) INDICATE 41 FIRST-TIME RECIPIENTS DURING THIS FIVE-YEAR PERIOD.

Country	Institution		FY'85	FY'86	FY'87	FY'88	FY'89	TOTALS
Zimbabwe	Simon Mazorodze Institute	*			1,000	1,550	1,450	4,000
			0	0	1,000	1,550	1,450	4,000
ASIA		[	4,510	+ 3,950	+ 6,930	+ 8,475	+ 5,630	= 29,495]
China	American Medical Center	*			1,000	2,000	750	3,750
	Center for Am.Studies-Fudan	*			2,000	2,000	250	4,250
	Nanjing Ctr. Chin/Am.Studies	*				700	300	1,000
			0	0	3,000	4,700	1,300	9,000
India	Dhamtari Hospital	*					800	800
	Kodaikanal Int'l School	*	300					300
	Ludhiana Medical College		500	500		500	450	1,950
	Vellore Medical College		500	450	700			1,650
	Woodstock School	*	110				350	460
			1,410	950	700	500	1,600	5,160
Korea	Chung Ang University	*		400				400
	Presbyterian Medical Center		400					400
	Soong Sil University		900					900
			1,300	400	0	0	0	1,700
Micronesia	Xavier High School	*		600		400		1,000
			0	600	0	400	0	1,000
Pakistan	Memorial Christian Hospital	*					800	800
	Nancy Fulwood Hospital	*		500		700	200	1,400
			0	500	0	700	1,000	2,200

Country	Institution		FY'85	FY'86	FY'87	FY'88	FY'89	TOTALS
Philippines	Angeles University	*		650				650
	Ateneo de Davao University		250				230	480
	Ateneo de Zamboanga Univ.	*	850			150		1,000
	De La Salle University					800		800
	Notre Dame de Marbel College	*			950			950
	Notre Dame University				850			850
	Saint La Salle University	*			250		250	500
	Xavier University					225		225
			1,100	650	2,050	1,175	480	5,455
Sri Lanka	Eastern Technical College	*			130			130
			0	0	130	0	0	130
Thailand	Bangkok Adventist Hospital	*	700	850	300	1,000	1,250	1,000
	Yonok College				750			3,850
			700	850	1,050	1,000	1,250	4,850
EUROPE			1,675	+ 1,350	+ 1,525	+ 1,250	+ 898	= 6,698
Greece	American College of Greece			500				500
	American Farm School		475			250	298	1,023
	Am. School Classical Studies	*			450			450
	Anatolia College		600	200		300		1,100
	Athens College				350		300	650
			1,075	700	800	550	598	3,723
Italy	Bologna Center		350	325	325	300		1,300
			350	325	325	300	0	1,300
Poland	American Children's Hospital		250	325	400	400	300	1,675
			250	325	400	400	300	1,675

Country	Institution		FY'85	FY'86	FY'87	FY'88	FY'89	TOTALS
LATIN AMERICA and THE CARIBBEAN ---------			[4,025	+ 6,945	+ 5,950	+ 8,505	+ 6,879	= 32,304]
Belize	Saint John's College	*					750	750
			0	0	0	0	750	750
Brazil	Esperança Medical Center			192	250	550		992
			0	192	250	550	0	992
Ecuador	Cotopaxi Academy	*			500	800		1,300
			0	0	500	800	0	1,300
Guatemala	Francisco Marroquin Univ.			1,900	1,400	1,150	950	5,400
	Hospital de la Familia				200			200
	University of the Valley		850	600	600		850	2,900
			850	2,500	2,200	1,150	1,800	8,500
Haiti	Am. University of Les Cayes	*		700	900	1,600	1,829	5,029
	Bonoc Technical Institute		375	330	200			905
	Hospital Saint Croix		300	355	200		500	1,355
			675	1,385	1,300	1,600	2,329	7,289
Honduras	Panamerican Agric. School		1,700	1,443	1,000	1,355	850	6,348
	Sampedrana Intern'l School		800	200		1,250	300	2,550
			2,500	1,643	1,000	2,605	1,150	8,898
Jamaica	Saint George's College			225				225
			0	225	0	0	0	225
Mexico	American/Brit. Cowdray Hosp.			1,000		1,000	500	2,500
	University of the Americas				700	800	350	1,850
			0	1,000	700	1,800	850	4,350

Country	Institution		FY'85	FY'86	FY'87	FY'88	FY'89	TOTALS
NEAR EAST			[13,150	+14,425	+13,150	+14,545	+12,400	= 67,670]
Egypt	American University in Cairo		1,850	1,750	650	1,300	1,000	6,550
	College of the Holy Family	*	400					400
			2,250	1,750	650	1,300	1,000	6,950
Israel	American College of Belz	*	500					500
	Beth Yacov Avat School				100			100
	Boys Town		300		700			1,000
	Children's Town	*		500				500
	Emunah College		200					200
	Feinberg Graduate School		500	750	1,000	1,000	1,000	4,250
	Gan Yavne Youth Village		150					150
	Hadassah Medical Center		1,500	1,500	1,650	1,500	1,500	7,650
	Harry Truman Institute	*		150				150
	Israel Arts/Science Academy	*		200			1,500	1,700
	Machanaim High School	*		200	200	200		600
	Machon Alte Institute	*					1,500	1,500
	Mother and Baby Hospital	*		1,250		1,250		2,500
	Ohr Somayach School		1,000		1,000	670		2,670
	Ohr Hachayim Girls College						500	500
	Sanz Medical Center		500			300	900	1,700
	Sha Alvim College	*		400				400
	Shaare Zedek Medical Center			500	500			1,000
			4,650	5,450	5,150	4,920	6,900	27,070
Jordan	Am. School Oriental Studies		250					250
			250	0	0	0	0	250
Lebanon	American University of Beirut		5,000	6,000	6,000	6,500	3,500	27,000
	Beirut University College		350	200		350	300	1,200
			5,350	6,200	6,000	6,850	3,800	28,200
Turkey	Admiral Bristol Hospital		650	725	450	575	250	2,650
	Am. Collegiate Institute	*		300				300
	Am. Girls' Service Center	*			400	400		800
	Robert College				500		450	950
	Tarsus American School	*				500		500
			650	1,025	1,350	1,475	700	5,200

Country	Institution	FY'85	FY'86	FY'87	FY'88	FY'89	TOTALS
WORLD-WIDE	[	3,350 +	3,926 +	3,900 +	4,100 +	4,221 =	19,496]
	Project Hope	1,500	2,000	1,550	1,700	2,200	8,950
	Project Orbis	1,850	1,925	2,300	2,400	2,000	10,475
	Program Evaluation			50		21	71
		3,350	3,925	3,900	4,100	4,221	19,496
TOTAL ASSISTANCE		30,000	33,495	35,000	40,000	33,500	171,995

QUESTIONS SUBMITTED BY SENATOR DANIEL INOUYE

AMERICAN SCHOOLS AND HOSPITALS ABROAD PROGRAMS IN CHINA

SENATOR INOUYE: Mr. Santos, it is my understanding that despite the political turmoil which has rocked China over the last twelve months, the American Schools and Hospitals Abroad (ASHA) supported programs have continued to function unmolested and free of any interruption to their work and study schedules.

What assurances, if any, have you received from the Chinese government that these U.S.-supported institutions will be allowed to function normally in the future?

MR. SANTOS: We have neither sought nor received such assurances. Despite some initial interruptions in programs, the private U.S. organizations sponsoring activities in China are continuing their educational and medical programs in cooperation with the Chinese entities with whom they work.

SENATOR INOUYE: How would you rate the success of the Nanjing, Fudan and Shanghai Foundation programs in achieving their original objectives?

MR. SANTOS: The three organizations have constructed new and renovated existing facilities. Construction of the Nanjing Center for Chinese and American Studies was successfully completed several years ago without U.S. Government financing. It has been conducting joint studies programs which, for the most part, have been as originally planned by the Johns Hopkins School for Advanced International Studies. The Fudan and Shanghai Foundations successfully renovated existing educational and medical facilities. The Foundations' original objectives included major new construction of academic and hospital facilities. However, the planned construction projects were so ambitious the Foundations revised them when it became clear they were beyond the Foundations' ability to obtain funding from any combination of private and/or public financing entities. The revised projects, although smaller, require major construction. At present, it is premature to rate the Fudan and Shanghai Foundations' success in accomplishing their revised objectives.

ASHA PROGRAMS IN EASTERN EUROPE

SENATOR INOUYE: With the emergence of several fledgling democracies in Eastern Europe, does the American Schools and Hospitals Abroad plan to devote many resources to establishing schools and hospitals in this region?

MR. SANTOS: ASHA's involvement in Eastern Europe will depend upon whether there are qualifying applicants and how well they compete for available resources. Presently, the only institution ASHA assists in Eastern Europe is the American Children's Hospital in Krakow, Poland. To date, there have been only two inquiries from potential future applicants for Eastern Europe.

PERCENTAGE OF ASHA BUDGET IN DEVELOPING WORLD

SENATOR INOUYE: If ASHA does indeed intend to devote attention to Eastern Europe, I believe that it would be a disservice to the

developing world if they are to suffer a significant drop in the funds devoted to projects in their countries. What percentage of your budget do you intend to devote to the developing world?

MR. SANTOS: During the 1980s, an increasing majority of ASHA assistance has benefited institutions in Africa, Asia, Latin America and the Caribbean. Hopefully, conditions will permit this to continue. In Fiscal Year 1990, ASHA assisted 46 institutions. Sixty-five percent of the grants and 64 percent of funds assisted 30 institutions in Africa, Asia, Latin America and the Caribbean. Eleven grants and 28 percent of the funds assisted institutions in the Near East. The remaining five grants assisted institutions in Europe which received 7.8 percent of ASHA's budget.

OFFICE OF U.S. FOREIGN DISASTER ASSISTANCE

STATEMENT OF ANDREW S. NATSIOS, DIRECTOR

Mr. Chairman and Members of the Committee:

During the fall of 1989, the Agency for International Development's Office of U.S. Foreign Disaster Assistance (OFDA) celebrated its twenty-fifth anniversary. It was a time to reflect on a number of accomplishments. The office had responded to over 1,000 disaster declarations. Over 450 disaster preparedness, mitigation and early warning activities had been completed. The increasing number of disasters to which the office is asked to respond, and the growing vulnerability of large segments of the world's population, give OFDA no cause for complacency. However, significant events are taking place throughout the disaster assistance arena which give rise to some optimism and offer opportunities for reversing the negative trends. Our challenge is to find innovative ways to grasp these opportunities for improvement.

During FY 1989, 55 disasters were declared by U.S. Ambassadors overseas, and OFDA obligated $50.8 million. Some of the critical worldwide needs to which OFDA responded in FY 1989 included the following:

- floods in Thailand, the Philippines, Indonesia, Sri Lanka, Republic of Korea, Peoples Republic of China, Gabon, Malawi, Djibouti, Mali, Ghana and Peru;
- fires in Burma and Guinean Bissau;

- o earthquakes in the Soviet Union, China and Indonesia;
- o severe storms in the Philippines, Bangladesh, Costa Rica, and Western Samoa;
- o epidemics in Togo, Comoros, Ethiopia, Nigeria, Benin, and Bolivia;
- o civil strife and displaced persons in Mozambique, Sudan, Somalia, Haiti, Lebanon and Angola;
- o insect infestations in Gambia, Senegal, Mauritania, Cape Verde, Morocco, Sudan and Jordan;
- o droughts in Togo and Uganda;
- o food shortages in South Africa;
- o displaced persons in Senegal, Mauritania, and Gambia; and
- o accidents/emergencies in the Soviet Union and Argentina.

Many of the African disasters such as Sudan, Ethiopia, Mozambique, and Angola were familiar to all of us. The combination of drought and other natural hazards and civil strife have become a pattern of life - and death - and now presents a chronic deterrent to development. We've seen an increase also in the number of fast onset disasters over the past few years. Hurricane Hugo, which devastated Jamaica in September 1989; floods in Tunisia; the recent Cyclone Ofa in Western Samoa; and 28 other disasters so far this fiscal year have required immediate responses.

A few of these disasters reveal a new trend which we believe will become more pronounced in the next years. The transition from totalitarian rule in Romania and Panama has given rise to disaster situations to which OFDA has been called upon to respond. This transition has also brought to light the alarming conditions under which the affected populations have lived for many years. As we watch nations making that transition to democratic, free enterprise, we must consider the effect of their economic vulnerability on their ability to cope with natural as well as man-made disasters.

On the positive side, much has happened in the past few years to bring new focus to the problems posed by disasters; this focus offers promise of new resources. At the center of this growing awareness is the International Decade for Natural Disaster Reduction unanimously approved in the United Nations General Assembly last December. Under the aegis of the Decade, several U.N. agencies and international lending institutions have made new and substantial commitments toward mitigating the effects of natural disasters.

On balance, OFDA is optimistic about the future. To prepare for this challenge, we have spent considerable time during the past year reviewing our goals and objectives, policies and procedures and operating effectiveness. The conclusions of these analyses can be summarized as follows:

- We propose to better integrate disaster relief and preparedness initiatives into the regular development programs of the countries we assist. We must ensure that disaster relief and rehabilitation strengthen the indigenous capacity to cope with future disasters. We must take full advantage of the potential of development programs to reduce the disaster vulnerability of the countries they are intended to serve.

- We need to become more precisely focused in all of our activities on meeting the primary goal of the office: to save lives threatened by disasters. As an adjunct, we must improve our capacity to deal with the specific problems of children victimized by disasters. Children are both the most vulnerable segment of the population and the hope for the future.

- We are working on new initiatives to incorporate the resources of the private sector in the conduct of our relief and mitigation activities.

OFDA has initiated strategies which we believe will help us meet these requirements. Our operating procedures have been strengthened to provide timely, better coordinated responses to the variety of disasters we must address. An independent analysis of our past 10 years of preparedness and mitigation activities has reinforced the importance we have placed on these programs while suggesting a more coherent strategy and better management techniques for the future. Wide-ranging discussions with other elements of A.I.D., other U.S. Government agencies, private and voluntary agencies, international organizations and the private sector have revealed several avenues which promise new areas of cooperation. We hope soon to announce the establishment of a private sector advisory committee which will provide us with a window on the largely untapped resources of the private sector in dealing with disaster issues. We have instituted a process by which we are developing new understandings with our counterparts regarding the areas of mutual concern in which we should share resources. We have opened up new horizons for professional training of our own staff and those on whom our outreach is dependent.

In all of these new initiatives, we have built on the past 25 years of experience. In just a few weeks the OFDA staff will meet as a body to evaluate our priorities in the context of what the past year has taught us. At that time we shall elaborate our strategy for FY 1991.

For FY 1991, A.I.D. is requesting an appropriation of $40 million for the International Disaster Assistance account. This is an increase of $15 million (38%) over the FY 1990 appropriation of $25 million. The increase recognizes the fact that we have had to commit sums in excess of amounts appropriated for the past several years and reduces the potential need to draw on already constrained Development Assistance accounts.

Based on prior-year trends, we assume in our resource planning that we will respond to approximately 60 disasters in FY 1990. We expect that the need for funding emergency programs in drought and civil strife-torn areas, particularly in Africa, will continue. We have no reason to believe that the rest of the disaster-prone world will see any appreciable abatement of natural hazards. I foresee that OFDA's ability to intervene in disaster events will continue to improve and that to the best of our ability we shall insure that those interventions minimize future disaster threats.

To achieve the objectives we have set for ourselves we must vigorously pursue the preparedness and mitigation program we began developing several years ago. The analysis of these activities mentioned above has provided valuable insights as well as renewed dedication to the principles of preparedness. We will concentrate on those activities which have the most immediate impact upon the lives of those who are threatened bydisaster, particularly those who are most vulnerable, such as children. Priority is being given to those activities which are demonstrably more sustainable within the development context. We have also placed a high priority on projects which address environmental problems which pose severe disaster threats. We have placed particular emphasis on finding ways to mitigate famine, particularly in areas where it is a chronic problem. When a drought turns into a famine, it is because of a failure of development - a failure which disaster mitigation measures may ameliorate.

I appreciate this opportunity to tell the Committee of our plans for FY 1991. The challenge we face is formidable, but the potential rewards of making significant inroads to the problem of global disasters provide OFDA with the energy we need to carry out the task.

QUESTIONS SUBMITTED BY SENATOR DANIEL INOUYE

LOCAL PROCUREMENT FOR DISASTER RELIEF

SENATOR INOUYE: Mr. Natsios, in last year's Foreign Operations Committee Report, the view was expressed that potential exists for increased local procurement of basic relief commodities by your Office. I believe that such efforts will help further microenterprise development in the developing world.

What efforts have been made to study the feasibility of using U.S. funds to assist in the local procurement of basic relief commodities?

MR. NATSIOS: Senator, allow me to preface my answer to your question about the feasibility of local procurement for Disaster Relief by noting that the Foreign Assistance Act (FAA) of 1961 instructs the Agency for International Development (A.I.D.) to buy goods or services from the United States first and foremost. Although A.I.D. does substantial local procurement, how and why we do local procurement versus U.S. procurement has recently been the subject of discussion within A.I.D. As a result of these discussions the Administrator, Dr. Roskens, has recently sent a cable to our overseas missions instructing them to follow the intent of the FAA by applying a common sense principal toward "Buying American" first, and where not possible, to buy goods locally. I believe that you and Dr. Roskens would agree that the U.S. taxpayer expects A.I.D. to make every effort to "Buy America" first and buy locally when appropriate. The Agency will be providing more detailed guidance on its "Buy America" policy in the weeks and months ahead and I will be happy to share that information with you as it becomes available.

More specifically with respect to disaster assistance, the Office of U.S. Foreign Disaster Assistance (OFDA) has examined the feasibility of increased local procurement of basic relief commodities. Historical disaster response experience has established that local procurement is appropriate, and has been the policy, when the commodity requirements are immediately available or can be rapidly fabricated (e.g., tools, cooking utensils, medicines, shelter components, culturally preferred items). There are also situations where the U.S. Government must respond with safe, time-tested, U.S. manufactured commodities when quality or availability factors govern (e.g., fire-resistant plastic sheeting, portable water purification equipment, tents).

There are cases where both methods complement each other very well. This is the case, particularly in large projects such as temporary bridging where the United States has the bridges and local sources provide the labor, secondary and support materials, and transport. The same applies to immediate replacement of roofing and other emergency construction projects. An on-going example is the displaced persons facility at Camp Albrook, Panama.

We agree with the Committee's expressed concern that potential exists for increased local procurement of basic relief commodities and will continue to procure through such sources when they are available with timely, safe, and dependable assets.

QUESTIONS SUBMITTED BY SENATOR BARBARA MIKULSKI

PVO CONTACTS FOR DISASTERS

SENATOR MIKULSKI: In times of disaster, many of our constituents will call Senate offices to find out how they can be helpful. If a constituent of mine were to call me and ask how to assist in a relief effort, or simply get information, what should I tell him to do?

MR. NATSIOS: The most useful and versatile form of assistance to victims of disasters is cash. Donations of cash to relief organizations working in the disaster-stricken area will enable these organizations to purchase relief supplies locally or in neighboring countries. This allows essential goods to arrive as quickly as possible with a minimum of transport costs.

To obtain information or to get a list of those private voluntary or international organizations responding to the disaster, interested individuals may contact the American Council for Voluntary International Action (InterAction) Emergency Coordinator at (202) 822-8429 or Volunteers in Technical Assistance, Inc. (VITA) at (703) 276-1800.

CHILDREN IN DISASTERS

SENATOR MIKULSKI: In your testimony you mentioned a fact about which I am specially concerned: that children are the most vulnerable segment of the population during disaster situations and afterwards. You say that OFDA has realized the need to improve its ability to assist children and will be taking steps to do so.

Could you explain this in more detail for us? Does OFDA have a policy or program specifically designed to assist children during and after a disaster? How will OFDA coordinate its efforts with other A.I.D. bureaus?

MR. NATSIOS: In recent years, substantial research has identified many of the factors which get in the way of humane and rational treatment of children in emergencies and also has suggested strategies for mitigating the problem through provision of appropriate relief assistance. These can be summarized as follows:

-- Place the highest priority on the best interests of the child, including its protection, welfare and developmental needs;

--Prevent the separation of children from their families by protecting the integrity of the family and avoiding relief policies which inadvertently cause parent-child separation;

--Encourage and support those local and national institutions which have traditionally provided for the care and protection of orphaned, abandoned and otherwise deprived children.

OFDA administered slightly more than the $1 million earmarked by the Congress in FY 1988 to assist orphaned children in sub-Saharan Africa. Through several private and voluntary organizations, OFDA responded to the emotional and physical needs of these children in Ethiopia, Mozambique, Sudan and Uganda. In FY 1989, we continued our efforts in Ethiopia and Mozambique with an increased focus on displaced children. We programmed $500,000 in FY 1990 to meet needs in several countries in Africa including Angola, Ethiopia, Mozambique and Uganda. This is in addition to the larger A.I.D. Development Assistance program for children

orphaned as a result of drought, civil strife and other natural and man-made disasters.

OFDA is mindful that the solution to this problem goes beyond the funding of discrete activities. OFDA has been developing a strategy by which we hope to mitigate the undue deprivations faced by children in disasters. The strategy incorporates the experts' recommendations noted above, and infuses them into the policies and procedures by which OFDA operates. As an example, OFDA is concentrating particularly on means by which the problem of the breakdown of tribal coping mechanisms may be reversed. They have begun to look at the special vulnerability of children in analyzing of disaster threats to populations. The child is a specific focus of OFDA's ongoing study of displaced persons in Africa. OFDA has active programs in public awareness which target children's special vulnerability and learning abilities. We are more closely linking our disaster relief to development efforts such as the Agency's Child Survival Program. OFDA utilizes the special interests and resources of preeminent international and non-governmental agencies dealing with the protection and care of children.

OFDA does not suggest that this problem will go away, but it is actively pursuing the above strategy.

INTERNATIONAL DISASTER ADVISORY COMMITTEE

SENATOR MIKULSKI: Your testimony outlines OFDA's desire to bring the private sector into disaster relief efforts, including an establishment of a private sector advisory council. Will OFDA be using private sector funds in relief efforts and if so, how will this be done?

MR. NATSIOS: The International Disaster Advisory Committee (IDAC) was established in June this year. The IDAC will encourage private sector disaster preparedness and relief activities in other countries. Trade and professional organizations will be identified through which the Advisory Committee hopes to stimulate either in-kind or financial support. Private companies can help minimize economic disruption due to disasters both for the companies affected and for the communities at large. Corporate funds, employee involvement and in-kind contributions will be solicited to support these activities.

SENATOR MIKULSKI: What role will this advisory council play in OFDA's future activities?

MR. NATSIOS: The Advisory Committee will identify means of coordinating new private sector support for future relief and preparedness activities. To the extent this is successful, over the long term it will alleviate the U.S. Government response requirements. For example, communications in the Philippines were severely disrupted after the July 16 earthquake. AT&T worked effectively to assist the Philippines in restoring the telephone systems.

DEPARTMENT OF STATE

STATEMENT OF MELVYN LEVITSKY, ASSISTANT SECRETARY, INTERNATIONAL NARCOTICS MATTERS

I am pleased to appear here before you today to summarize the Department of State's FY 1991 budget request of $150 million for the Bureau of International Narcotics Matters. Our budget, which we have submitted formally to the Committee, contains program details and justifications.

Our request is approximately $36.9 million, or 31 percent, over the FY 1990 appropriated level and builds upon enhanced counternarcotics efforts in the Andes in FY 1990. Before discussing the details of our request and providing the Committee with further justification, I would like to share some thoughts on what we accomplished over the past year, and where I see INM going during the next year.

Mr. Chairman, a number of critical narcotics control developments took place during 1989, in priority regions of South America, Mexico and the Caribbean. Cocaine seizures increased over previous years; Colombia seized 37 metric tons of cocaine, and Mexico seized another 34. Colombia's crackdown against drug traffickers has disrupted part of the cocaine trade, and drug dealers are no longer able to live the high life they had taken for granted. There is more evidence that the pressure is working: coca leaf prices in Bolivia and Peru are dropping, leading peasants to seek legitimate alternatives. During 1989, we were able to complete a secure base in Peru's Upper Huallaga Valley; this base enables Peruvian and U.S. law enforcement personnel to now conduct regular operations against cocaine manufacturing and trafficking.

The historic meeting in Cartagena signalled a new era in narcotics cooperation with our Andean partners. No longer is the drug issue simply a law enforcement problem; we are committed to working with Colombia, Bolivia and Peru to explore ways to strengthen military and economic cooperation, including opportunities for expanded trade and investment. The President's $2.2 billion five-year Andean Strategy seeks to bolster these countries' capabilities to attack the drug trade on all fronts.

We know that our efforts to eliminate cocaine trafficking will face many challenges in the years ahead. Coca production continues to increase. Trafficking patterns continue to flow through the Caribbean and Florida and increasingly flow through Mexico and our Southwest border. Central American countries are increasingly important links in the cocaine chain. Corruption still undermines progress in the Andes, in Mexico, Central America and the Caribbean. Violent retaliation by drug traffickers and insurgents threatens efforts to eliminate cocaine production and trafficking.

And cocaine is not our only problem. We are concerned about the possibility of a heroin epidemic, especially given the increases in opium production in Southeast Asia and Guatemala. We have limited political access in most of the major opium poppy producing countries--Burma, Afghanistan, Iran, and Laos. We are concerned that the heroin trafficking situation in bordering countries is worsening. Our concern, however, is being matched by our resolve to develop workable strategies for improving the situation. The Department of State is currently leading a government-wide effort to develop a realistic plan for enhanced heroin control activities.

I am encouraged by the positive developments of 1989 and challenged by the problems still facing us. During the past nine months since becoming Assistant Secretary, I have attempted to bring balance into our programs, enhance our ability to manage these important programs, and work within the Department to ensure that narcotics is a top priority in foreign policy.

Beyond a doubt, narcotics control has become a key foreign policy issue in our hemispheric relations, and is continually viewed as a framework for discussions both with our European allies and drug producing nations. The narcotics issue has the Secretary's support, evidenced, for example, by his public statements, most recently before the United Nations last month. A Narcotics Issues Coordinating Structure has been established within the State Department to raise critical issues which can impact drug control progress.

One of my first tasks after confirmation was to seek the necessary resources to get the job done. The Department has manifested its increased support for the Bureau's activities by granting an additional 25 full-time permanent direct-hire State Department positions. I have reorganized the management structure of the Bureau. I am pleased to note that we have attracted a much larger number of exceedingly able Foreign Service bidders in this cycle and have filled nearly all of our jobs or identified candidates to begin this summer.

We still face many challenges such as planning, implementing and overseeing a complex interregional aviation support function and designing effective diplomatic strategies to involve the multilateral organizations and the European community in more productive ways to reduce the availability of illicit narcotics. I look forward to these challenges in my second year and will seek your support to help me with this task.

Now to the budget. As I stated in my opening paragraph, the FY 1991 budget contains increases that are designed to accomplish three things:

(1) Continue the momentum begun in FY 1990 in the cocaine source countries in the Andes, and support added emphasis on transit nations and the heroin producing countries;

(2) Increase our influence on the multilateral international organizations, such as the United Nations and the OAS, to become more effective in planning drug control projects in producing countries that support our overall national strategy; and

(3) Increase, through interregional training and institution building in source and transit nations, foreign governments' ability to enforce their laws and reduce the supply of narcotics destined for the United States.

<u>The Andes</u>

Over $25 million of the $36.9 million increase requested in FY 1991 is to continue to improve law enforcement programs in Bolivia, Colombia and Peru.

The Administration recently completed a comprehensive, interagency plan that began in June 1989 on how to work with the three major Andean governments to disrupt and destroy the growing, processing, and transportation of coca and coca products within the source countries, so as to reduce the long

term supply of cocaine from these countries to the United States. In late August 1989, the President directed that a five-year $2.2 billion counternarcotics effort begin in FY 1990 by augmenting the law enforcement, military, and economic resources in Colombia, Peru and Bolivia. After much deliberation between the United States and the individual cooperating governments, implementation plans have been prepared, discussed and are being refined into bilateral project agreements. After appropriate notification and consultation with the Congress, the Administration intends to allot the increased security assistance, authorize signature of obligating project agreements and begin implementation of the Andean action plans. Although INM exercises policy control over the entire counternarcotics Andean strategy, the Bureau directs the implementation of only the law enforcement portion, or $54.7 million of the approximate $400 million total.

The Andean counter-narcotics strategy contains three major objectives. First, through concerted action and bilateral assistance, it is our goal to strengthen the political will and institutional capability of the three Andean governments to enable them to confront the coca trade. With elections drawing near, the political environment in the Andean countries may heat up. It will be critical to be ready with actions ranging from expanded public diplomacy in each country to encouragement to enact tougher and more effective drug laws in such areas as extradition, money laundering and asset forfeiture.

Second, another major objective of this strategy is to increase the effectiveness of the military and law enforcement activities against the coca trade in the three source countries, particularly by providing air mobility for both military and police forces. Specific objectives include efforts to isolate key coca growing areas, block the shipment of key precursor chemicals, destroy existing labs and processing centers, control key air corridors, and reduce net production of coca through aerial application of herbicides when it is effective to do so.

Third, the final overall goal of the implementation plan is to inflict significant damage on the trafficking organizations which operate within the three source countries by dismantling operations and elements of greatest value to the trafficking organizations. Through strengthening ties between police and military units and creating major violator task forces to identify key organizations, the bilateral assistance will enable host government forces to target the leaders of the major cocaine trafficking organizations, impede the transfer of drug-generated funds, and seize their assets within the United States and in those foreign nations in which they operate.

A major tenet of this strategy is the incorporation of expanded economic assistance beginning in FY 1991 to support the political, legal and military resolve necessary for effective narcotics control action in FY 1990 and beyond. The assistance reflects our conclusion, incorporated in the Declaration of Cartagena, that a comprehensive, intensified counternarcotics strategy must also include understandings regarding economic cooperation, alternative development and encouragement of trade and investment. Our efforts will be directed toward offsetting the negative economic dislocations that are associated with successful narcotics suppression efforts. Loss of hard currency and income alternatives will force certain dislocations that certainly will strain the resolve of the governments.

As pressure is exerted on cartels in the three principal coca producing countries, they will attempt to shift their operations to other countries in Latin America and the Caribbean. Latin American countries most vulnerable to this "spill-over" effect are Ecuador, Venezuela, Paraguay, Argentina, Chile and Brazil. State, in cooperation with ONDCP, will undertake a review to determine how best to assist these countries with their counternarcotics efforts.

Mexico and Transit Countries

We are also requesting additional resources to support the Mexican Attorney General's eradication and interdiction program and improve our coverage of transit zones throughout the hemisphere. We are encouraged with the substantial progress that President Salinas has made in narcotics control since coming to office last year.

President Salinas has elevated the narcotics threat to a national security issue and has taken aggressive action in his first year in office. The past few years have seen an increase in the amount of cocaine entering the United States across the Mexican border; it is estimated that at least half of the cocaine entering the U.S. is transshipped through Mexico. In 1989, the Salinas Administration seized 34 metric tons of cocaine, exceeding the amount seized during the previous six years.

We are requesting an increase of $3.3 million, or approximately 20 percent, over the FY 1990 level to support the expanded use of the Mexican airfleet. To counteract the increased use of the southwestern border as an entry port for cocaine, Mexico has increasingly used its airfleet to support cocaine interdiction operations, including the transport of police personnel, confiscated drugs, and detained traffickers.

The Government of Mexico (PGR) has dedicated increased resources to its anti-drug operations. For example, the PGR increased its budget to $37 million in 1989 from $23.1 million in 1988. The Salinas Administration reorganized and strengthened its drug forces and established a special anti-narcotics interdiction force of 1,500 personnel. The PGR has also increased significantly the size of its airfleet since 1987, adding 19 new helicopters and a number of confiscated fixed-wing aircraft, raising the fleet total to 110 by the end of 1989. Additionally, Mexican military forces continue to perform important anti-narcotics roles.

In addition to continuing to support law enforcement initiatives (e.g., eradication and interdiction, information sharing, etc.), we will seek to strengthen Mexico's ability to track illegal money and firearms flows and the diversion of essential and precursor chemicals. We plan to examine the possibility of integrating financial investigations, munitions control and essential precursor chemical diversion programs with related U.S. programs. We will also enhance law enforcement investigative lead-sharing, building on, among other foundations, the recently-ratified U.S.-Mexican Mutual Legal Assistance Treaty which we hope to put into force soon. We will also assist Mexico in identifying clandestine labs, landing strips, cache sites, and smuggling routes. Public awareness and demand reduction programs will be pursued through the media, expert visits, training and assistance with community and school education and drug abuse programs.

Finally, an interagency review of narcotics cooperation with Mexico is under way to develop a comprehensive package of

proposals for discussions with the Mexican Government which can lead to a new level of counternarcotics cooperation.

Central America and the Caribbean

The narcotics control problem in Central America and the Caribbean is twofold: first, as interdiction has become more successful in certain areas, Central America has increasingly been used as a transshipment point for cocaine. Marijuana and opium have also been grown in certain countries in the region. Second, favorable financial conditions and banking laws made some countries in the region particularly favorable money laundering centers.

In Panama, the Endara Government has demonstrated its commitment to narcotics control and to cooperating with the U.S. in concrete and signifcant ways, including the signing on January 10, 1990 of a basic counternarcotics agreement with the U.S. (Chiles Amendment requirement). In Belize and Guatemala, we plan to continue our eradication and interdiction support. Diplomatic efforts need to focus on raising public awareness, improving joint information coordination centers to improve enforcement efforts, and promoting anti-drug self-sufficiency, regional cooperation and multilateral involvement in narcotics control.

Our bilateral assistance funded by the Latin America Regional program has averaged $6.0-$7.0 million annually for the past several years and we are proposing to maintain that level for FY 1991. Assistance provided includes training, provision of equipment and technical guidance. In FY 1990, we assigned personnel to new Narcotics Assistance Units in Panama and the Dominican Republic.

ASIAN PROGRAMS

The INM FY 1991 budget reflects the limitations of our diplomatic relationships with Myanmar (Burma), Laos and Afghanistan and looks for multilateral strategies where appropriate. Increased heroin production in the Golden Triangle and Golden Crescent areas of the world requires, however, imaginative enforcement/eradication initiatives. The focus, therefore, is placed on capitalizing upon opportunities to control narcotics production and trafficking in Thailand and Pakistan, with funds budgeted for Laos should our ability to influence and work productively against narcotics materialize in FY 1990 as planned.

The "Golden Triangle" countries of Thailand, Myanmar (Burma) and Laos will produce an annual opium crop estimated in excess of 1,500 metric tons in 1988 and 1989; the bulk of this opium comes from Myanmar and Laos. Operations in Myanmar, however, have been suspended due to the current political situation.

Laotian production of opium, heroin and marijuana continues to present severe problems because cultivation and trafficking are expanding. In late FY 1989, the U.S. Government signed a program agreement with the Laotian Government. This agreement will provide alternative economic incentives for producer regions through the development of alternative crops to reduce and eventually eliminate dependence on opium cultivation in Laos.

Thailand's opium production continues to decline due to its effective crop control policy. The FY 1991 budget provides funding to help the Royal Thai Government further reduce opium

poppy cultivation by continuing "bridge" assistance to farmers who agree not to cultivate poppy or whose poppy crop is eradicated. The major shift in Thailand, however, is to support Thai enforcement agencies' efforts to stop the flow of opium transiting the country; this initiative will require an increase in new and replacement enforcement equipment.

Opium production in the Southwest Asian countries of Afghanistan, Pakistan and Iran is estimated at 1,109 to 1,415 metric tons in 1989, with prospects for reductions only in Pakistan where a modest aerial spray program was implemented during the 1987 and 1988 crop seasons. In response to the serious increases in opium cultivation, the Government of Pakistan has enforced the poppy ban in all settled and merged areas with (or without) the promise of development projects. Pakistan has also accepted restrictive poppy clauses which commit the Government to keeping the U.S. Government's Agency for International Development's (USAID) project areas free of opium poppy.

In FY 1991, the Department will continue to support the extension of Pakistan's ban on opium poppy cultivation to the Bajaur and Mohmand regions by introducing improved agricultural crops and by providing income alternatives through an integrated rural development scheme, including roads, wells and electrification. Due to the rapid progression of these projects, the Department is increasing its support for the time-phased enforcement of the poppy ban in these areas. Moreover, the Department will continue to pursue other outreach activities to prevent the spread of opium poppy cultivation and help poppy growers substitute other new crops in areas where there are no major development assistance projects. The Department will give added support to Pakistan's law enforcement and interdiction efforts against trafficking organizations.

Interregional Aviation Support

In FY 1991, the program will support the overall maintenance, hangaring and operational costs for the 52 Department-owned aircraft used in aerial and manual eradication, interdiction operations, survey and logistical support activities. The principal focus will continue to be in Peru, Bolivia and Colombia, with secondary support to Central America and the Caribbean. The aircraft are maintained by a United States contractor and deployed from an air base in Florida. The full deployment of these aircraft will require the additional maintenance and operational funds requested in this budget.

Multilateral Organizations

Our request for voluntary contributions to the UN goes from $3.0 to $5.0 million in FY 1991 to encourage the multilateral organizations to undertake more effective programs in cooperation with drug source countries. By increasing our contribution to the international organizations we believe that we can have more direct influence within these deliberative bodies and expand anti-narcotics projects.

We are also requesting increases for the interregional training program and our program development and support category to fund the annualization of the personnel increase we received in FY 1990.

Mr. Chairman, I believe that we have opportunities in the coming year for meaningful gains in international narcotics control. I know that progress will not be made overnight, and that we will be successful only if we receive the full support of the international community. Thank you for this opportunity to discuss our budget request with the Committee, and I will be happy to answer any questions you might have.

QUESTIONS SUBMITTED BY SENATOR DANIEL INOUYE

Q: -- Mr. Levitsky, in your written testimony, you request $150 million for the Bureau of International Narcotics Matters which is an increase on $36.9 million over the FY 90 appropriated level and say that you have been granted an additional 25 positions. Earlier this year, I read a Washington Post story in which you said that you did not assign a staffer to the CIA's Center for Narcotics Control because you "couldn't spare the resources."

With this additional funding, do you now intend to attach a staffer to the CIA's Center for Narcotics Control?

A: The Department strongly affirms the importance and necessity of interagency cooperation, particularly in the counternarcotics arena which is one of the Administration's top priorities. The Department and CIA are working closely on this issue in a variety of mechanisms: meetings, small working groups, briefings, etc.

Specifically, we do intend to provide a State Department representative to the Center for Narcotics Control. The paperwork is in process: a position description has been established for this staff member and appropriate clearances are being obtained to finalize the assignment.

QUESTIONS SUBMITTED BY SENATOR BARBARA MIKULSKI

Q: -- Mr. Levitsky, your testimony discusses many interdiction and eradication efforts, and your three goals regarding the Andean nations deal with political will, law enforcement and damage to trafficking organizations. You mention that in Bolivia and Peru coca leaf prices have dropped because of such efforts, leading the peasants to seek legitimate alternatives.

What is the Administration's view on the potential effectiveness of substituting alternatives to illegal drug crops? Does your bureau cooperate with other assistance programs in promoting economic alternatives to narcotics growers and producers?

A:

- Our earlier U.S. crop substitution strategy has been expanded to encompass a broader spectrum of alternative development, including creation of alternative income opportunities within the zone of coca cultivation, in outlying areas which have been the source of seasonal and permanent migration to coca zones, and in other areas of the country which can attract former coca growers. These job opportunities may be in agriculture, small-micro business, and the service sector.

- The success of USG counter-drug development efforts depends upon effective host country law enforcement and eradication efforts to drive up the price of coca production, thereby making alternative economic opportunities more attractive to farmers. A.I.D. is the lead agency in implementing U.S. alternative development programs. We also coordinate with the UNFDAC and other bilateral donors in promoting alternative development for drug growers and producers.

Q: -- The United States recently apprehended Dr. Jorge Alvarez Machain in Mexico in connection with the brutal murder of Kiki Camarena there in 1985. The U.S. Government then brought Dr. Alvarez Machain to the United States for trial, sparking criticism from the Mexican public and government.

To what extent has this problem affected U.S. anti-drug efforts in Mexico? Is it likely to have future consequences for United States operations in Mexico?

A:

- First, I would like to clarify the question about Dr. Alvarez' arrest. Dr. Alvarez was not "apprehended" by the U.S. officials in Mexico. He was brought to the U.S. by Mexican nationals anad arrested by U.S. law enforcement officers in El Paso, Texas. The circumstances of Dr. Alvarez' transfer to the U.S. are currently being reviewed in Federal Court in California. Alvarez remains in U.S. custody while the appeal process continues.

- The Alvarez Machain case, the U.S. Supreme Court decision in the Verdugo case and other events have caused friction between the GOM and USG. Incidents such as these are bound to happen from time to time; what is important is that we are able to resolve these issues and that the overall level of cooperation between the U.S. and Mexico remains high. In reaction to these incidents, the Government of Mexico recently issued a set of guidelines concerning the role of DEA agents operating in Mexico, which we believe is workable.

- U.S.-Mexican cooperation on counter-narcotics is better than it has been for many years and this cooperation is expanding, particularly in information exchange and law enforcement cooperation.

- The Department of State (INM) currently provides $15 million in support of Mexican drug control programs. Most of this funding is used for an aviation maintenance contract with Bell Helicopter to support the eradication campaign, but we also contribute to demand reduction and other efforts. We expect to increase our support over the next two fiscal years ($18.3 million in FY 1991 and $29-35 million in FY 1992) to assist Mexico in countering the dramatic upswing in transshipments of cocaine from Colombia.

- On April 16, the Mexican Deputy Attorney General responsible for narcotics matters, Javier Coello Trejo, publicly announced that the Mexican government was initiating a major anti-narcotics operation along the northern border to address this new threat. The project, known as the Northern Border Response Force, has been very successful in its first few months of operation, netting over 9 metric tons of Colombian cocaine plus airplanes, support equipment and ground vehicles (the seized vehicles and equipment will be used in the anti-narcotics effort).

Other accomplishments in law enforcement cooperation include the ratification of a Mutual Legal Assistance Treaty, which we hope will soon enter into force, and the signing and entry into force of the "Agreement Between the United States of America and the United Mexican States on Cooperation in Combatting Narcotics Trafficking and Drug Dependency" (the so-called Chiles Amendment agreement).

STATEMENT OF MORRIS D. BUSBY, COORDINATOR, ANTITERRORISM TRAINING ASSISTANCE

Thank you for the opportunity to submit this testimony and discuss the Anti-terrorism Training Assistance program (ATA) for FY 1991. I am presenting this testimony on the U.S. government's ATA program amid continuing concerns about the threat of international terrorism and its changing patterns. The terrorist attacks last year which killed Americans in Bolivia, the Philippines, in a UTA airliner over Niger and elsewhere illustrate the dangers of terrorist threats in the far corners of the world even as terrorism declined overall in 1990.

Helping other countries improve their capabilities to deal with terrorist threats is a key element of our overall anti-terrorism effort. By doing so, we are helping these nations protect their own people and our citizens overseas. The ATA program is the major mechanism we use to improve the skills of security officials of friendly countries in dealing with terrorism threats.

In this testimony, we will discuss two ways to make the program even more effective: increased budget support and in-country training amendments which will allow the U.S. to

train foreign officials in their own countries at their own airports and other installations.

BACKGROUND

Since the program was launched in 1984, nearly 9000 officials from about 60 countries have taken part. The ATA program offers training in a wide variety of courses, including such vital skills as hostage negotiations, maritime port security, and training dogs to sniff out explosives. However, in view of the bombings of Pan Am 103 in December 1988 and last year's bombings of the UTA flight 772 over Niger and the Air Avianca flight in Colombia, one particular part of the ATA program deserves special mention -- aviation security.

Training in airport security has been and continues to be one of the most important parts of our ATA program. More than 850 students from 33 nations have been trained in civil aviation security subjects through the ATA program since 1984. The courses are offered at the Transportation Safety Institute, a Federal Aviation Administration (FAA) facility in Oklahoma City, Oklahoma. The Airport Security Management course offered at Oklahoma City is designed for police and other security officials involved in managing a security force in the special circumstances presented by an airport. This course includes a mixture of classroom instruction, practical exercises, and on-the-scene instruction at a major U.S. airport.

While our previous program of instruction in Oklahoma City was sound and the most stringent approach to airport security in the civilian sector, as part of our re-evaluation efforts to continue to make improvements we incorporated lessons learned from the Pan Am 103 bombing. We also have,

among other things, brought into the program instructors with experience in El Al Airlines' security. We continue to monitor technical and tactical developments in airport security around the world. As part of our efforts to work closely with the FAA consistent with a GAO report, our ATA personnel have joined with FAA inspectors in examining some of the most critical airports in the world.

Countering the existing threats to international civil aviation requires an effective aviation security program which includes a well-trained staff supplemented by a variety of technical aids. Such a system has deliberately built-in backups and recognizes that the most critical element in aviation security is the well-motivated employee who takes his or her duties seriously. We are confident that our basic ATA teaching program is sound and contributes to the building of such a system.

The ATA curriculum emphasizes that no single approach or layer of security is foolproof. It teaches the interdependence and complementary roles of people, procedures, existing technology such as x-rays, and additional aids such as dogs. In our training, we will continue to anticipate terrorist actions and incorporate the "lessons learned" from terrorist activities aimed at civilian aviation.

As mentioned previously, airport security is only one of our training areas in the ATA program. A list of ATA courses is attached. The courses have been adapted to meet the needs of the participating countries and interest in the program remains high. We continue to experience increasing requests from other nations for ATA training in a variety of areas.

BUDGET REQUEST

For FY 1991, the President is seeking $12.026 million for the ATA program, compared with the final $9.973 funding level for FY 1990. This is the first significant increase requested for the ATA program since FY 1986. We are requesting this FY 1991 funding level to enable the Administration to continue its existing training efforts for a number of countries throughout the world and to expand assistance to help meet additional needs and requests of other countries in regions from which the terrorists are beginning to operate. As security is improved in Western Europe and even the Middle East, terrorists have increasingly gone far afield to stage major operations, such as last year's UTA airliner bombing over West Africa in which seven Americans were killed, the 1988 hijacking to Algiers of Kuwaiti airlines flight 858 originating in Bangkok, and the attacks on Saudi officials and Iranian dissidents in Turkey, Cyprus and Thailand.

The funds sought for FY 1991 will finance training for about 1,350 participants from about 30 to 35 countries and in-country seminars for an additional 600 participants. We will also make available a modest amount of training-related equipment, such as state-of-the-art x-ray machines which can help detect plastic explosives, metal detectors and radios. Under existing law, up to 25% of the ATA program funds can be used to provide equipment. The program prefers, however, to concentrate on providing training rather than equipment since the "return" on our investment through training is more effective and timely.

As the ATA program now has six years of experience, we rely increasingly on effective ongoing evaluations as the basis for

decisions on retraining and provision of new equipment as needed to nations which were earlier ATA participants. We also continue to develop new courses in response to emerging and existing terrorist threats. For example, we are developing a course specifically aimed at deterring terrorist operations in urban areas, such as assassinations, kidnappings and bombings.

IN-COUNTRY TRAINING

This year, as in 1989, we are seeking one very useful change in the implementation program. Section 8 of the Foreign Assistance Act which authorizes the ATA program requires that all the training be provided within the United States. Our experience leads us to the conclusion, however, that it would be much more effective and cost-efficient to provide training on certain courses in the recipients' own country. It is much more effective to be able to train security officials at the airports or harbors where they will actually work rather than teaching them at U.S. facilities which have working and security conditions far different than those often found in nations which receive ATA assistance. In many cases, training the students in their own country saves the cost of transportation and per diem for students in the United States. It is less expensive and more effective to send two or three instructors overseas than to bring 30 or so students to the United States for a specific course.

Therefore, we have proposed an amendment with two related provisions. The first would allow in-country ATA training in eight specified areas of instruction such as aviation and maritime security. The other related provision would allow the use of Diplomatic Security Bureau personnel to provide instruction in certain specified courses overseas, such as

facility protection, in which the bureau has extensive expertise. As Bureau of Diplomatic Security officials often travel overseas to help bolster embassy security, it would be helpful if in some cases they could provide training to the host country officials while they are there. This would help make the training more effective and also enhance the working relationships with the host government officials involved in helping protect American personnel and facilities.

The amendment was incorporated in the foreign assistance authorization bill passed by the House of Representatives in 1989. A similar amendment was contained in the companion foreign aid authorization bill which was approved by the Senate Foreign Relations Committee but did not reach the Senate floor last year. The provisions were carefully worked out to take into account the human rights concerns which are of great importance to both the State Department and the Congress. We hope that these two very important provisions can be revived and given final congressional approval this year. A copy of our proposed amendment for FY 1991 is attached.

Neither of these provisions will affect in any way the underlying human rights emphasis in the ATA program nor alter the continuing oversight role of Congress for this program. We continue to give high priority to human rights concerns. The ATA program in the meantime has continued to develop as an important way to help protect the rights of residents and tourists to be free from terrorist attacks.

We believe that with continued Congressional support and the changes we propose, the program will become an even better tool in helping reduce the level of terrorist violence. We would be glad to brief the committee or answer any questions you may have.

ANTI-TERRORISM TRAINING ASSISTANCE COURSES

I Transportation Systems Security

Airport Security Management
Maritime Security
Maritime Response Team

II Installation Security

Court Security
Vital Installation Security

III Personal Security

VIP Protection
Security of High-Risk Prisoners
Judicial Protection

IV Bomb & Explosives Management

Post-Blast Investigation
Explosive Detector Dog & Handler
Canine Instructor Training
Explosive Incident Countermeasures
Advance Explosive Incident Countermeasures

V Crisis & Hostage Management

Senior Crisis Management
Crisis Response Team Training

VI Anti-Terrorism Support

A/T Operations
Terrorist Crime Scene Search
Terrorist Analysis
A/T Urban Patrol Techniques
Forensic Lab Procedures

Training Services. -- Section 573(d)(1) of the Foreign Assistance Act of 1961 is amended to read as follows:

"(1) Training services (including short-term refresher training) provided pursuant to this chapter may be conducted outside the United States only if such training involves (A) aviation security; (B) the handling of detector dogs; (C, crisis management; (D) document screening techniques; (E) facility security; (F) maritime security; (G) post-blast investigation and tracing of lethal instruments; or (H) VIP protection.".

Training by Bureau of Diplomatic Security. -- Section 573(d)(3) of the Foreign Assistance Act of 1961 is amended to read as follows:

"(3) Employees of the Department of State shall not engage in the training of law enforcement personnel or provision of services under this chapter, except that employees of the Bureau of Diplomatic Security of the Department of State may provide training (including short-term refresher training) and services authorized by this chapter to law enforcement personnel in the following subjects: (A) crisis management; (B) facility security; and (C) VIP protection.".

QUESTIONS SUBMITTED BY SENATOR BARBARA MIKULSKI

Question. Mr. Busby, what has been done about finding the two remaining, at-large assassins of U.S. Navy diver Robert Stethem, killed in the 1985 TWA hijacking?

Answer. We know who they are, and efforts are being made to locate them and bring them to justice. I am afraid I am not prepared to go into this sensitive topic because it might jeopardize apprehension efforts. I want to assure you, though, that the U.S. Government is fully determined to apply the rule of law to the perpetrators of this and other terrorist crimes.

The U.S. Government terrorism information rewards program is authorized to pay up to $4 million for information leading to the arrest and conviction of individuals who carry out acts of terrorism against American citizens.

We are in the process of advertising this award program worldwide.

STATEMENT OF JOHN R. BOLTON, ASSISTANT SECRETARY, INTERNATIONAL ORGANIZATIONS AND PROGRAMS

I WELCOME THE OPPORTUNITY TO SUBMIT A STATEMENT IN SUPPORT OF THE PRESIDENT'S FISCAL YEAR 1991 APPROPRIATION REQUEST OF $225 MILLION FOR UNITED STATES CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS AND PROGRAMS (IO&P). THIS REQUEST WILL FUND U.S. VOLUNTARY CONTRIBUTIONS FOR A VARIETY OF DEVELOPMENT, HUMANITARIAN AND SCIENTIFIC ACTIVITIES EITHER UNDERTAKEN BY INTERNATIONAL ORGANIZATIONS OR DIRECTLY LINKED WITH THEIR PROGRAMS. THROUGH OUR MULTILATERAL EFFORTS, THE UNITED STATES CAN INFLUENCE POLITICAL REFORM, ECONOMIC INDEPENDENCE AND AN IMPROVED QUALITY OF LIFE.

I. OBJECTIVES

I WOULD LIKE TO ADDRESS FOUR MAJOR FOREIGN POLICY OBJECTIVES WE ARE PURSUING IN THIS ACCOUNT.

-- THE FIRST OBJECTIVE IS TO FURTHER THE CONCEPT OF A "UNITARY UN" WHICH PROVIDES US WITH A NEW BASIS FOR DEALING

COHERENTLY WITH THE UN SYSTEM ON BOTH POLICY AND BUDGETARY GROUNDS. OUR APPROACHES TO THE UN AFGHANISTAN TRUST FUND AND UNDP EXEMPLIFY THE "UNITARY UN" AT WORK.

-- THE SECOND OBJECTIVE IS TO ADVANCE GLOBAL PEACE AND STABILITY THROUGH STRONG SUPPORT FOR SUCH MULTILATERAL INSTITUTIONS AS THE INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA) AND ITS IMPORTANT NON-PROLIFERATION AND NUCLEAR SAFETY ACTIVITIES.

-- THE THIRD OBJECTIVE IS TO FOSTER SUSTAINABLE DEVELOPMENT IN OUR MULTILATERAL EFFORTS. WITH RECOGNITION THAT SUCH DEVELOPMENT CANNOT OCCUR IF THE ENVIRONMENTAL IMPACT IS NOT FULLY EXPLORED AND IF INSTITUTIONS ARE WEAK AND INEFFECTIVE. THE PROGRAM FOCUS OF UNDP AND UNICEF ARE JUST TWO EXAMPLES OF INTERNATIONAL ORGANIZATIONS WHOSE PROGRAMS ARE DESIGNED TO FIND SOLUTIONS TO DEVELOPMENT PROBLEMS WHICH RESPECT AND PRESERVE NATURAL RESOURCES, BUILD THE NATIONAL CAPACITY OF DEVELOPING COUNTRIES AND REDUCE THEIR DEPENDENCE ON EXTERNAL RESOURCES.

-- THE FOURTH FOREIGN POLICY OBJECTIVE IS TO INCREASE EMPHASIS ON IMPORTANT ENVIRONMENTAL INITIATIVES. THIS IS REFLECTED IN NEW OR EXPANDED REQUESTS FOR SUPPORT OF EFFORTS SUCH AS WMO'S CLIMATE STUDIES FUND AND THE WMO/UNEP INTERGOVERNMENTAL PANEL ON CLIMATE CHANGE, THE INTERNATIONAL TROPICAL TIMBER ORGANIZATION AND THE TROPICAL FORESTRY ACTION PLAN. THESE INITIATIVES ARE IN AREAS THAT REFLECT THE PRESIDENT'S STRONG COMMITMENT TO ENSURING THAT ENVIRONMENTAL ISSUES ARE FULLY INTEGRATED INTO OUR FOREIGN POLICY EFFORTS.

A. UNITARY UN

THE "UNITARY UN" CONCEPT IS A MEANS TO ACCOMPLISH THE ENORMOUS TASKS FACING MULTILATERAL INSTITUTIONS THROUGHOUT THE WORLD WITHOUT SIGNIFICANTLY INCREASING OUR CONTRIBUTIONS. ONE WAY OF DOING THIS IS TO DEAL COHERENTLY WITH THE UN SYSTEM ON BOTH POLICY AND BUDGETARY GROUNDS. WE HAVE NOTED THAT THERE IS A TENDENCY FOR SPECIAL PURPOSE TRUST FUNDS TO BE ESTABLISHED WHEN NEW CONCERNS ARISE, RATHER THAN ENSURING THAT OUR ASSESSED AND VOLUNTARY CONTRIBUTIONS ARE USED IN A MORE FOCUSED AND INTEGRATED MANNER. SUCH A POLICY SERVES TO CREATE A GREATER SENSE OF POLITICAL RESPONSIBILITY AMONG MEMBER GOVERNMENTS AND SECRETARIATS OF THESE ORGANIZATIONS. IN PURSUIT OF THE MOST RATIONAL USE OF OUR FINITE RESOURCES, THE CONGRESS AND THE U.S. TAXPAYER EXPECT NO LESS FROM US.

THE CONCEPT OF THE UNITARY UN IS EXEMPLIFIED IN OUR APPROACH TO DETERMINING THE PROPER ROLE FOR UNDP IN THIS DECADE. SINCE ADOPTION OF THE CONSENSUS OF 1970 ON OPERATIONAL ACTIVITIES FOR DEVELOPMENT, THERE HAVE BEEN SEVERAL ATTEMPTS TO IMPROVE THE COHERENCE, INTEGRATION AND COORDINATION OF UN SYSTEM OPERATIONAL ACTIVITIES FOR DEVELOPMENT. DONORS, RECIPIENTS, AND THE ORGANIZATIONS WHICH ARE A PART OF THE UN DEVELOPMENT SYSTEM NOW SHARE AN INCREASING REALIZATION OF THE NEED TO ADDRESS SOME FUNDAMENTAL ISSUES AND CONSTRAINTS. THIS REALIZATION LARGELY HAS BEEN THE RESULT OF EFFORTS BY THE UNITED STATES, IN CONCERT WITH OTHER DONORS, TO PUSH FOR REFORMS BY ACTIVELY ENCOURAGING UNDP AND THE UN SPECIALIZED AGENCIES TO TAKE SPECIFIC STEPS TO IMPROVE THEIR COLLABORATION AS PARTNERS IN THE UN DEVELOPMENT SYSTEM. THESE STEPS INCLUDE COMMISSIONING OF AN EXPERT STUDY OF THE FULL RANGE OF ISSUES RELATED TO UNDP'S FINANCIAL RELATIONSHIP TO THE UN AGENCIES

WHICH IMPLEMENT ITS PROJECTS. THIS STUDY SHOULD RESULT IN A RESTRUCTURING OF THIS FINANCIAL RELATIONSHIP WHICH WILL INCREASE THE COHERENCE OF UN SYSTEM DEVELOPMENT ACTIVITIES IN THE FIELD, STRENGTHEN THE TECHNICAL CAPACITIES OF THE SPECIALIZED AGENCIES AND LEAD TO A MORE EFFECTIVE DIVISION OF LABOR AMONG THE PARTNERS IN THE UN SYSTEM.

WHEN I MET WITH UNDP ADMINISTRATOR, WILLIAM DRAPER, THIS PAST OCTOBER, I DISCUSSED THE "UNITARY UN" CONCEPT AND HOW IT WOULD ACHIEVE A SORTING OUT OF THE ROLES OF RESPECTIVE UN AGENCIES, TO AVOID OVERLAP AND DUPLICATION OF EFFORT. I HAVE CARRIED A SIMILAR MESSAGE IN DISCUSSIONS WITH OTHER AGENCY HEADS.

ANOTHER EXAMPLE OF THE "UNITARY UN" AT WORK IS THE MASSIVE RELIEF AND RECONSTRUCTION EFFORTS REQUIRED IN AFGHANISTAN. WE ARE MINDFUL OF THE ENORMOUS CHALLENGE FACING PRINCE SADRUDDIN AGA KHAN AS THE SPECIAL COORDINATOR FOR AFGHAN HUMANITARIAN AFFAIRS. PRINCE SADRUDDIN MUST MOBILIZE DONOR SUPPORT AND COORDINATE THE WORK OF NUMEROUS UN AGENCIES, INCLUDING UNDP, UNICEF, THE OFFICE OF THE UN HIGH COMMISSIONER FOR REFUGEES (UNHCR) AND THE WORLD FOOD PROGRAM (WFP), TO ENSURE THAT ADEQUATE, COST-EFFECTIVE AND NON-DUPLICATIVE ACTIONS ARE BEING TAKEN TO RESTORE PEACE AND PROSPERITY TO THE REGION.

B. ADVANCEMENT OF PEACE AND STABILITY

MERELY AS ONE MAJOR EXAMPLE OF FOSTERING OUR FOREIGN POLICY OBJECTIVE IN THIS AREA IS OUR VOLUNTARY FUNDING FOR THE INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA). THE PRESIDENT'S STRONG COMMITMENT TO THE IAEA WAS DEMONSTRATED IN FEBRUARY 1989 WHEN HE PLEDGED TO "STRENGTHEN THE HAND OF THE IAEA." THE IAEA

CONTINUES TO ADVANCE U.S. NATIONAL SECURITY INTERESTS BY PREVENTING THE SPREAD OF NUCLEAR WEAPONS, AND PROMOTING THE SAFE AND PEACEFUL UTILIZATION OF ATOMIC ENERGY THROUGHOUT THE WORLD. THE U.S. VOLUNTARY CONTRIBUTIONS TO THE IAEA ARE USED TO SUPPORT THE AGENCY'S SAFEGUARDS PROGRAM AS WELL AS ITS TECHNICAL ASSISTANCE TO DEVELOPING COUNTRIES. THESE TECHNICAL ASSISTANCE PROGRAMS ARE DESIGNED TO FULFILL THE CENTRAL BARGAIN UNDERLYING THE NON-PROLIFERATION TREATY: THAT THOSE SIGNATORY COUNTRIES WHICH DO NOT HAVE NUCLEAR WEAPONS WILL FORESWEAR THE DEVELOPMENT OF WEAPONS PROGRAMS, AND IN RETURN THE NUCLEAR WEAPONS STATES WILL OFFER THEIR TECHNOLOGY AND ASSISTANCE IN PEACEFUL FIELDS SUCH AS MEDICINE, AGRICULTURE, AND RADIOLOGICAL PROTECTION. WE TAKE SERIOUSLY THE COMMITMENT TO MEET OUR PART OF THIS BARGAIN AND VIEW THIS EFFORT AS A VITAL BUTTRESS TO OUR NON-PROLIFERATION POLICY.

FOLLOWING THE ACCIDENT AT CHERNOBYL, THE IAEA HAS MOVED AHEAD ON NUCLEAR SAFETY, BY ASSISTING COUNTRIES THROUGHOUT THE WORLD IN OPERATING THEIR NUCLEAR FACILITIES MORE SAFELY AND BY PROVIDING A FRAMEWORK FOR RAPID NOTIFICATION AND ASSISTANCE IN THE EVENT OF A NUCLEAR ACCIDENT.

C. SUSTAINABLE DEVELOPMENT

AN INCREASED EMPHASIS ON THE ENVIRONMENT AND SUSTAINABLE DEVELOPMENT ARE INTERRELATED. THE SECRETARY STATED IN HIS SPEECH BEFORE THE NATIONAL GOVERNOR'S ASSOCIATION IN LATE FEBRUARY THAT "SUSTAINABLE DEVELOPMENT ... IS A WAY TO FULFILL THE REQUIREMENTS OF THE PRESENT WITHOUT COMPROMISING THE FUTURE. WHEN POLICIES OF SUSTAINABLE DEVELOPMENT ARE FOLLOWED, OUR ECONOMIC AND ENVIRONMENTAL OBJECTIVES ARE BOTH ACHIEVED. IN FACT, AMERICA'S ENTIRE APPROACH TO BILATERAL AND

MULTILATERAL ASSISTANCE IS BASED ON THE CONCEPT OF SUSTAINABLE DEVELOPMENT."

UNDP, AS THE LARGEST SINGLE SOURCE FOR GRANT MULTILATERAL TECHNICAL ASSISTANCE, CAN HAVE THE GREATEST IMPACT ON SUSTAINABLE DEVELOPMENT BY AN INCREASED FOCUS ON BUILDING A RECIPIENT COUNTRY'S NATIONAL CAPACITY TO MANAGE AND FINANCE ITS OWN DEVELOPMENT, POLICY PLANNING, HUMAN RESOURCES DEVELOPMENT, AND ENVIRONMENTAL PROTECTION.

UNICEF'S PROGRAMS IMPROVE SOCIAL SERVICES, BREAK DOWN THE VICIOUS CYCLE OF POVERTY AND CONTRIBUTE TO THE GOAL OF SUSTAINABLE DEVELOPMENT AS WELL AS LONG-TERM ALLEVIATION OF HUMAN SUFFERING.

IFAD PROVIDES GRANTS AND SOFT LOANS TO SUPPORT INVESTMENT AIMED AT INCREASING FOOD PRODUCTION IN DEVELOPING COUNTRIES. IT ALSO ADDRESSES THE NEED TO IMPROVE CONDITIONS FOR THE RURAL POOR AND LANDLESS. LONG-TERM SUCCESS IN THESE EFFORTS DEPENDS UPON THE EXTENT TO WHICH SUSTAINABLE AGRICULTURAL PRACTICES ARE ADOPTED.

D. ENVIRONMENTAL INITIATIVES

TURNING TO THE FOURTH OBJECTIVE, THROUGH OUR CONTRIBUTIONS IN THE "IO&P" ACCOUNT, WE ARE SEEKING TO UNDERSCORE THE PRESIDENT'S FIRM COMMITMENT TOWARD FINDING RESPONSIBLE SOLUTIONS TO ENVIRONMENTAL DEGRADATION. IN DEMONSTRATING THIS COMMITMENT, THE PRESIDENT BECAME THE FIRST HEAD OF STATE TO ADDRESS THE INTERGOVERNMENTAL PANEL ON CLIMATE CHANGE (IPCC) IN FEBRUARY OF THIS YEAR. THIS PANEL, WHICH IS JOINTLY SPONSORED BY THE WORLD METEOROLOGICAL ORGANIZATION (WMO) AND THE UN

ENVIRONMENT PROGRAM (UNEP), IS COMMITTED TO AN AMBITIOUS SCHEDULE OF WORK LEADING UP TO A REPORT TO THE SECOND WORLD CLIMATE CONFERENCE THIS FALL.

AT THE MEETING OF THE IPCC, THE PRESIDENT REITERATED OUR "NO REGRETS" POLICY TOWARD CLIMATE CHANGE AND ENCOURAGED OTHER NATIONS TO ADOPT A SIMILAR APPROACH. AS THE PRESIDENT POINTED OUT AT THE MEETING: "OUR GOAL CONTINUES TO BE MATCHING POLICY COMMITMENTS TO EMERGING SCIENTIFIC KNOWLEDGE -- AND A RECONCILING OF ENVIRONMENTAL PROTECTION TO THE CONTINUED BENEFITS OF ECONOMIC DEVELOPMENT." SECRETARY BAKER SAID IN HIS REMARKS BEFORE THE NATIONAL GOVERNOR'S ASSOCIATION THAT BY "NO REGRETS WE MEAN THAT WHILE WE ARE PURSUING THE SERIOUS SCIENTIFIC RESEARCH THAT IS CRITICAL TO ANY RESPONSIBLE APPROACH, WE'RE ALSO HEDGING OUR BETS IN AN ECONOMICALLY SOUND WAY ... BY MAKING MAJOR FINANCIAL COMMITMENTS IN SCIENTIFIC RESEARCH AND TAKING ACTIONS SUCH AS PHASING-OUT CHLOROFLUOROCARBONS BY THE YEAR 2000 TO PROTECT THE OZONE LAYER." THESE ARE SCIENTIFICALLY JUSTIFIABLE OR ECONOMICALLY BENEFICIAL STEPS THAT WE WILL NOT HAVE TO REGRET TAKING, REGARDLESS OF THE RESULTS OF OUR SCIENTIFIC RESEARCH INTO THE LIKELIHOOD OF GLOBAL WARMING AND CLIMATE CHANGE.

UNEP AND WMO ALSO HAVE PLAYED IMPORTANT ROLES IN PURSUING OTHER IMPORTANT ENVIRONMENTAL ISSUES OF PARTICULAR INTEREST TO THE UNITED STATES. FOR EXAMPLE, UNEP HAS PLAYED A CATALYTIC ROLE IN THE IMPLEMENTATION OF AGREEMENTS TO CONTROL OZONE-DEPLETING SUBSTANCES, SUPPORT FOR NEGOTIATIONS ON A FRAMEWORK CONVENTION TO ADDRESS THE THREAT OF GLOBAL CLIMATE CHANGE, THE COORDINATION OF REGIONAL SEAS PROGRAMS TO REDUCE MARINE POLLUTION, MAINTENANCE AND UPDATING OF THE INTERNATIONAL REGISTER OF POTENTIALLY TOXIC CHEMICALS AND IMPLEMENTATION OF A

NEW CONVENTION TO CONTROL TRANSBOUNDARY MOVEMENTS OF HAZARDOUS WASTE.

WMO'S VOLUNTARY COOPERATION PROGRAM CONTINUES TO SUPPORT THE PROVISION OF EQUIPMENT, TRAINING, AND EXPERT SERVICES DESIGNED TO ENHANCE THE WEATHER FORECASTING CAPABILITIES OF DEVELOPING COUNTRIES. THE AVAILABILITY OF THIS INFORMATION ON A WORLDWIDE BASIS IMPACTS SIGNIFICANTLY ON U.S. WEATHER FORECASTING CAPABILITIES IN SUCH AREAS AS AVIATION, SHIPPING, AGRICULTURE, AND STORM PREDICTION.

THREE ENVIRONMENTAL ITEMS ARE PROPOSED FOR FUNDING THROUGH THE "IO&P" ACCOUNT FOR THE FIRST TIME:

-- FUNDING FOR THE TROPICAL FORESTRY ACTION PLAN (TFAP) AND THE INTERNATIONAL TROPICAL TIMBER ORGANIZATION (ITTO) IS REQUESTED TO REFLECT COMMITMENTS MADE AT THE G-7 PARIS ECONOMIC SUMMIT LAST SUMMER. ITTO IS A COMMODITY ORGANIZATION WHICH IS TRYING TO CONSERVE TROPICAL FORESTS FROM THE "DEMAND" SIDE, BY FOLLOWING SUSTAINABLE HARVESTING AND CONSUMPTION PRACTICES. ON THE "SUPPLY" SIDE, THE TROPICAL FORESTRY ACTION PLAN, LAUNCHED IN 1987 UNDER THE JOINT SPONSORSHIP OF UNDP, THE WORLD BANK, THE WORLD RESOURCES INSTITUTE AND THE FOOD AND AGRICULTURE ORGANIZATION, SERVES AS A PROGRAM FRAMEWORK FOR DONOR COOPERATION AND DEVELOPMENT ASSISTANCE IN TROPICAL FORESTRY. REFLECTING THE GROWING REALIZATION OF THE IMPORTANCE OF TROPICAL FORESTS IN COMBATTING GLOBAL CLIMATE CHANGE, PRESERVING BIOLOGICAL DIVERSITY, AND FIGHTING AGAINST THE DEGRADATION OF SOILS AND WATERSHEDS, WE WANT TO JOIN WITH OUR ECONOMIC PARTNERS IN CONTRIBUTING TO MULTILATERAL EFFORTS TO ADDRESS THESE IMPORTANT NEEDS.

-- FUNDING FOR THE WMO'S CLIMATE STUDIES FUND IS INTENDED TO PROVIDE A NEW SOURCE OF SUPPORT TO INITIATE INCREASED, WORLDWIDE SCIENTIFIC ACTIVITIES IN CLIMATOLOGY, WHICH WILL THEN BE INTEGRATED INTO WMO'S ONGOING ACTIVITIES. THE NEW EFFORTS, FOCUSING ON PARTICIPATION BY DEVELOPING COUNTRIES, WILL INCLUDE ENHANCED GLOBAL OBSERVATIONS OF CLIMATE AND GREENHOUSE GASES AND TRAINING TO IMPROVE AWARENESS OF CLIMATE CHANGE AND ITS LOCAL EFFECTS.

THESE ARE JUST A FEW ILLUSTRATIVE EXAMPLES OF HOW OUR BUDGET REQUEST REFLECTS THE IMPORTANCE ATTACHED TO ENVIRONMENTAL ISSUES. LET ME NOT FAIL TO MENTION TWO OTHER LINE ITEMS IN THE ACCOUNT DIRECTLY AFFECTING OUR ECOSYSTEM: THE CONVENTION ON INTERNATIONAL TRADE IN ENDANGERED SPECIES OF WILD FAUNA AND FLORA (CITES) AND THE INTERNATIONAL CONVENTION AND SCIENTIFIC ORGANIZATION CONTRIBUTIONS (ICSOC). THROUGH OUR CONTRIBUTIONS TO THE CITES TRUST FUND, WE CAN CONTINUE TO WORK WITH OTHER NATIONS TO DEVELOP AN ENFORCEMENT SYSTEM TO REVERSE THE DECLINE IN THE AFRICAN ELEPHANT POPULATION, AND PROTECT OTHER THREATENED SPECIES OF PLANTS AND ANIMALS. OUR WITHDRAWAL FROM UNESCO HAS NOT ALTERED STRONG U.S. SUPPORT FOR SUCH ENVIRONMENTALLY-FOCUSSED PROGRAMS AS THE INTERGOVERNMENTAL OCEANOGRAPHIC COMMISSION, THE MAN AND THE BIOSPHERE PROGRAM AND THE INTERNATIONAL GEOLOGICAL CORRELATION PROGRAM. THESE PROGRAMS ARE FUNDED THROUGH ICSOC.

II. FY 1991 FUNDING REQUEST

OUR REQUEST FOR FUNDING OF OUR VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS AND PROGRAMS TOTALS $225 MILLION. THIS AMOUNT REPRESENTS NEARLY AN 8 PERCENT INCREASE OVER OUR FY

1990 REQUEST OF $209 MILLION. FOR ENVIRONMENTAL INITIATIVES, AS A WHOLE, WE ARE PROPOSING AN INCREASE OF NEARLY 33 PERCENT OVER OUR PREVIOUS YEAR'S REQUEST.

THE GROUND SWELL OF SUPPORT FOR BROAD AND SWEEPING POLITICAL AND ECONOMIC REFORM IN EASTERN EUROPE PRESENTS THE UNITED STATES WITH NEW OPPORTUNITIES FOR ADVANCING OUR FUNDAMENTAL BELIEFS IN INSTITUTIONALIZING DEMOCRACY AND MARKET-ORIENTED ECONOMIES. THE ENORMOUS CHALLENGES FACING US IN THE YEARS AHEAD WILL REQUIRE INNOVATIVE THINKING AND A FULL APPRECIATION THAT THERE ARE FINITE RESOURCES TO ACCOMPLISH THE TASKS THAT LIE AHEAD. WE MUST TAKE STOCK OF WHAT WE HAVE ACCOMPLISHED, WHAT HAS WORKED, AND WHAT HASN'T, AND CONTINUE TO ALLOCATE OUR LIMITED RESOURCES TO MEET THE MOST PRESSING NEEDS. WE MUST NOT WAVER IN OUR SUPPORT FOR MULTILATERAL EFFORTS TO ADDRESS CRITICAL PROBLEMS THAT ULTIMATELY AFFECT ALL HUMANKIND.

QUESTIONS SUBMITTED BY SENATOR DANIEL INOUYE

Q: Mr. Bolton, in your written testimony, you note that US funding for the International Atomic Energy Agency helps support their safeguards program to prevent the spread of nuclear weapons worldwide. With the recent arrest of Iraqi citizens trying to smuggle nuclear krytrons to Iraq, these efforts take on added urgency.

In the light of these arrests, does the US plan to ask the IAEA to institute additional measures to help prevent the proliferation of nuclear weapons technology?

A: The IAEA promotes nuclear nonproliferation by applying safeguards to nuclear material, equipment and technology declared by member countries, to ensure that these remain in peaceful use. Safeguards, in turn, permit legitimate nuclear trade by providing the confidence that only peaceful activities are supported through international nuclear commerce and cooperation. The IAEA has been

conducting inspections at Iraq's declared nuclear facilities in order to verify that inventories of declared nuclear material remain in peaceful use.

The kinds of activities you mention, however, are not best addressed by IAEA safeguards endeavors, because it is not their charter to detect and deter illicit nuclear trade. This, rather, is achieved through continued strong support for national and multilateral trade controls designed to withhold potentially dangerous technology from Iraq and other countries of concern. The interception of nuclear-capable capacitors sought by Iraq is, in fact, an example of successful trade control enforcement and effective cooperation among supplier countries. Right now, the U.N. embargo of Iraq covers all exports. But the U.S. has long maintained comprehensive controls on nuclear and nuclear-related exports, and we have coordinated with other supplier countries for many years on controlling such exports to countries of proliferation concern.

Our nuclear controls fall into two categories. First, there are items that are exclusively or largely nuclear in nature, such as nuclear fuel or nuclear reactor equipment. These are simply prohibited for export to countries of concern. Second, there are dual-use items, which are commercial or industrial in nature but which could have nuclear applications, depending on the capabilities of the particular equipment. Examples are electronic test devices, machine tools and computers. For dual-use items, we give careful case-by-case review and restrict the export in cases where there would be nuclear applications.

QUESTIONS SUBMITTED BY SENATOR BARBARA MIKULSKI

Q. Isn't it true that a generous family planning program will reduce the number of abortions.?

A. There are many factors that affect the number of abortions. Certainly one effective strategy for reducing the incidence of abortion is to promote widespread access to safe and effective modern contraception, and the United States is committed to maintaining its position of leadership in the provision of international family planning assistance. At the same time, we realize that the total amount of funds available from all donors is finite. We are therefore placing increased emphasis on better donor coordination, and we are working with host country service providers to improve the quality and efficiency of family planning program services offered to clients.

Q. By withholding funding to UNFPA, doesn't the U.S. policy result in an increase in abortions in these countries?

A. There is no demonstrated correlation between the lack of U.S. funding to UNFPA and an increase in abortions in any countries. It is important to remember that all U.S. funds reserved for UNFPA have been reprogrammed for other A.I.D. population assistance activities, and therefore there has not been any reduction in U.S. commitment to international family planning efforts. Moreover, you will find that other donors have more than compensated for the loss of the U.S. contribution to the UNFPA budget.

Q. Has any U.S. review of the China population issue discovered evidence that UNFPA is guilty of such actions?

A. Although China's official policy is that its population program is voluntary, and coercion is neither encouraged nor condoned, the Administrator of A.I.D. has found that

enforcement of authorized birth targets has resulted in coerced abortion and involuntary sterilization. The Chinese program includes setting targets for authorized births at provincial and local levels which are interpreted as quotas by family planning and other officials whose career prospects depend in part on meeting those targets. The Chinese program also includes special benefits for couples who have only one child, and economic and other penalties for those who have unauthorized children. These enforcement mechanisms, as applied in China, have led to abuses, including coerced abortion and involuntary sterilization.

UNFPA does not directly fund abortions or support coercion in China or elsewhere. The management assistance UNFPA has provided to China, e. g., computer hardware, training of Chinese demographers, and training for family planning cadres who help enforce the targets that lead to abuses, however, has enhanced significantly China's ability to manage implementation of its policies and monitor compliance with population targets. UNFPA also strongly defends China's population program.

The Kemp-Kasten Amendment prohibits assistance to an organization which supports or participates in the management of a program of coercive abortion or involuntary sterilization. The Administrator of A.I.D. has determined that this restriction applies to UNFPA as a result of its assistance to the Chinese family planning program. This 1985 determination has been upheld in the federal courts. Since then, annual reviews have found no change in the Chinese program or in UNFPA's activities there sufficient to warrant a resumption of assistance to UNFPA.

We are continually monitoring UNFPA activities and the Chinese program for significant developments discouraging coercion and preventing abuses that would be sufficient to affect UNFPA's eligibility for U.S. assistance in the future.

AFRICAN DEVELOPMENT FOUNDATION

STATEMENT OF LEONARD H. ROBINSON, JR., PRESIDENT

I am pleased to submit my written testimony to the Subcommittee on Foreign Operations on behalf of the African Development Foundation's fiscal year 1991 budget request.

Mr. Chairman, the Foundation's congressional budget presentation requests an appropriation of $11.5 million for fiscal year 1991. This budget request will fund approximately twenty-five new village-level development projects over last year's appropriation level of $8.8 million. Thus, the Foundation estimates that in fiscal year 1991, approximately 115 new development grants will be approved for funding.

Given the direction foreign aid has been delivered over the last twenty-five years -- channeled primarily through bureaucratically moribund governments and large aid programs which offer little hope of reaching the most needy and working poor -- ADF's development program is particularly relevant towards creating a genuine feeling of hope and indigenous ingenuity among rural and poor urban populations. Indicative of the support for ADF's development approach and the emerging shift in development priorities, African economic and non-governmental leaders are advocating grassroots development assistance which is targeted directly to peoples' organizations. In this regard, the United Nations Economic Commission for Africa (ECA), along with African non-governmental organization leaders recently held a conference (February 1990 in Arusha, Tanzania) on the role of and critical need for popular participation in development.

Most importantly, this international conference identified the lack of participatory processes as the primary cause of Africa's decade-long economic decline. The conference result was to adopt the "African

Charter for Popular Participation in Development Transformation (Arusha 1990)" which asserts that there must be an opening up of political processes to accomodate freedom of opinion, tolerate differences and to ensure the effective participation of the people and their organizations and associations in designing new policies and programmes. The African Charter calls upon African governments and international donors to "yield space to the people" and calls upon the African people themselves "to establish independent people's organizations that are genuinely grassroots, democratically administered and self-reliant." The African Development Foundation's (ADF) congressional mandate, established in 1980, clearly parallels the conference declarations for African governments, African NGOs and International Donors. The following relevant declarations of the conference illustrate a real recognition that effective and sustainable development assistance must be targeted directly to grassroots organizations and groups which have the capacity to undertake self-reliant participatory development initiatives.

> "We affirm that nations cannot be built without the popular support and full participation of the people, nor can the economic crisis be resolved and the human and economic conditions improved without the full and effective contribution, creativity and popular enthusiasm of the vast majority of the people. After all, it is to the people that the very benefits of development should be overcome, nor can a bright future for Africa and its people see the light of day unless the structures, pattern and political context of the process of socio-economic development are appropriately altered.
>
> We, therefore, have no doubt that at the heart of Africa's development objectives must lie the ultimate and overriding goal of human-centered development that ensures the overall well-being of the people through sustained improvement in their living standards and the full and effective participation of the people in charting their development policies, programmes and processes and contributing to their realization. We furthermore observe that given the current world political and economic situation, Africa is becoming further marginalized in world affairs both geographically and economically. African countries must realize that, more than ever before, their greatest resource is their people and that it is through their active and full participation that Africa can surmount the difficulties that lie ahead."

The Foundation encourages Congress to seriously consider the ideas expressed by the African Charter for Popular Participation and consider

mechanisms within U.S foreign assistance to increase support for development initiatives which are indicative of the ideas and aspirations of grassroots people. The full Charter declaration is submitted for the record.

ADF's Funding Profile

ADF responds to the development initiatives and proposals for project funding made by African village organizations, non-governmental associations, cooperatives and individuals. Therefore, the Foundation cannot project the exact dollar amount of funds allocated to each country prior to receipt and review of project proposals. In Fiscal Year 1991, the Foundation anticipates that approximately $8,515,000 will be allocated to development programs.

The Foundation is currently actively funding development and action research projects in 26 African countries -- Benin, Botswana, Cameroon, Cape Verde, Congo, Egypt, Ghana, Guinea, Kenya, Lesotho, Liberia, Mali, Niger, Rwanda, Sao Tome, Senegal, Sierra Leone, Somalia, Tanzania, Togo, Zambia and Zimbabwe (research grants were also made in Malawi, Nigeria, Uganda, Burkina Faso). In fiscal year 1989, the Foundation supported 44 new project grants, 17 project amendments and 11 research grants. Descriptions of projects and research funding in FY'89 is available in the FY'91 Congressional Presentation Document.

Increasingly, the Foundation is supporting more development projects which are either being initiated and implemented by young Africans or funding projects which focus on training youth and school leavers in practical skills that will provide them with opportunities to find employment and/or create their own income-earning enterprises. ADF believes that a focus on improving the earning and productive capacity of

African youth is critical in assisting Africa to realize its full economic potential. With population pressures increasingly rising in Africa coupled with continued economic stagnation, youth and skill training programs need to be highlighted and strengthened by development institutions. In Zimbabwe for example, recent figures indicate that by 1988 the Zimbabwean economy was only managing to create 10,000 new jobs per year; yet, at the same time over 90,000 school leavers were entering the job market every year. ADF-funded projects such as the Spring Cabinet Furniture Cooperative and Oneness Fencing and Welding Cooperative have provided marketable skill training and employment opportunities to Zimbabwe youth. In addition, Youth Brigade Projects funded in Botswana such as the Kgatleng Development Board for Welding and Production and the Palapye Development Trust for Carpentry Brigade supported by the Foundation are also providing important marketable vocational skill training to youth.

In addition, the Foundation will be increasing its support for environmental conservation initiatives and projects which utilize renewable resources in fiscal year 1991. The Foundation believes its greatest contribution in this area is to find opportunities to expand the knowledge and know-how and resources to use renewable energy resources to local people. Effective in fiscal year 1990 with greater emphasis in Fiscal Year 1991, ADF will be actively seeking to fund appropriate development projects which have a renewable energy component. ADF has recently supported the creation of an indigenous biogas digestor production center in Guinea as well as numerous integrated development projects in such countries as Senegal, Niger, Somalia, Tanzania, Benin, Togo, Cameroon and Zimbabwe which utilize solar energy panels and biofuels.

In addition, the Foundation plans to create a Renewable Energy Task Force of African technical professionals, who are experts in renewable

technologies, to propose a plan of action to increase the level of knowledge and application of renewable energy resources to grassroots people. The Task Force's recommendations will be reviewed in fiscal year 1991 for possible action in fiscal year 1992.

Development activities in the Sahel and West Africa will continue to focus on livestock management, agricultural production, water development and enterprise creation. As African countries continue economic austerity programs, ADF funding support will seek to assist people who lack access to basic services such as credit, water, extension assistance, supplies and agricultural inputs in order for them to improve their economic and social well-being.

New Country Entries in Fiscal Year 1991

The Foundation plans to conduct country assessment profiles in FY'90 and FY'91 in Uganda and Mozambique respectively in order to initiate funding operations in both countries in Fiscal Year 1991. Recently, the Foundation signed a country operating agreement with Uganda. The agreement with Mozambique is still under review by Mozambique government officials. Due to the increasing level of displaced persons in Uganda and Mozambique, particularly among young adults and children, ADF funding support will probably concentrate on transitional social and vocational skill training programs that will provide these youth and displaced families with useful skills in such areas as agriculture, construction, and masonry/iron works, in order for them to enhance their opportunities to find work and earn incomes. In addition, ADF will support private sector entrepreneurial initiatives in Uganda and Mozambique that will assist cooperatives and individuals to re-establish and improve upon their original productive activities.

ADF's support for Applied Research in FY'91

In FY'89, the Foundation supported 11 grassroots research grants. Approximately $851,000 of ADF's development program budget will be

allocated to support research and evaluation activities in fiscal year 1991. The Foundation offers three grant categories for research funding. They are: 1) Action Research; 2) Knowledge Transfer; and 3) Fellowship Grants. These grants are awarded on a competitive basis to African nationals for the study and dissemination of information relating directly to grassroots development.

Action/Applied Research Grants are awarded to African scholars, development professionals, students and community developers as a means to improve the sustainability and efficiency of local development programs. Researchers are expected to explore problems related to grassroots development and to make concrete suggestions and recommendations helpful to local community project designers and implementors.

Knowledge Transfer Grants are designed to support the ability of African researchers, community developers and institutions to share the results of research activities with their counterparts and policy-makers in local, regional and international forums. Such grants support either individuals or institutions in the organization of regional conferences, seminars, workshops or video tapes to address specific issues relevant to grassroots development.

Fellowship Grants are awarded under two sub-categories -- Senior Research Fellowships and Doctoral Research Fellowships. Senior Fellowship grants are awarded to African academicians and development professionals who have already demonstrated their commitment to grassroots development through professional careers in research, teaching, program administration or field work. Further, these individuals' careers should reflect a combination of study and work -- typically 10 years of substantive experience or 5 years and a MA Degree in a relevant field. Grant recipients must live and work in Africa and

have the endorsement of the research by a local institution or organization with whom the research is affiliated.

Doctoral Fellowship grants are awarded to African students currently pursuing doctorates at a university in the United States, to carry out field research on subjects directly related to grassroots development. The approach here is to generate and support interest among African students to work in the development field upon their return home.

While the Foundation's support to development research activities in Africa is relatively new, the Foundation is seeing some of the positive results of the program. Most significantly, a research grant awarded to Dr. Olayiwola Erinosho from Nigeria to study and document primary and traditional health care needs in Nigeria has resulted in the Agency for International Development (AID) funding a $25 million grant to Nigeria to implement solutions to problems identified in Dr. Erinosho's research. In Uganda, ADF supported research on Planning and Management of Non-Formal Education Programs for Rural Development in Uganda. As a result of the research, there has been discussions at various levels in the government of adopting some of the recommendations from the research into the Ugandan government's adult education program.

In addition, Dr. Salah Arafa, a professor from the American University in Cairo, Egypt, recently completed his research on the use of solar powered video training systems for increasing production activities in Sub-Saharan Africa. His research was so well received in the seven African countries visited, that the Foundation is initiating a Renewable Energy Task Force, headed by Dr. Arafa, to initiate follow-up development proposals for expanding the applications of renewable energy technologies in Africa.

ADF's support to African research contributes to the creation of a cadre of African scholars and development practitioners who are part of the

intellectual resources of Africa. Many of their findings and recommendations are being actively considered by official policy-makers in Africa.

Also in Fiscal Year 1991, ADF plans to initiate a study using African economists in three countries (Tanzania, Zambia and Ghana) to undertake an assessment of the impact of structural adjustment measures on the well-being of urban and rural poor. The assessment will be coordinated by the Eastern and Southern Universities Research Programme located in Tanzania. Because ADF's development approach directly channels resources to poor people, the volume of requests for assistance from the Foundation have increased dramatically over the last two years ($46 million average per annum). ADF is now receiving requests from a larger group of people which is increasingly encompassing not only the traditionally poor, but the newly poor as well. Such newcomers include ex-civil servants, farmers who have traditionally relied on parastatal support services, and small business persons who are seeking "private sector" development assistance. This assessment of structural adjustment's effect on the traditionally urban and rural poor will assist ADF to better serve its target population as well as provide more concrete and insightful information to World Bank policy makers, African officials and Africa NGOs on the effect of various structural adjustment programs on the traditionally poor.

Program Support in Fiscal Year 1991

The Foundation's program support budget for fiscal year 1991 is $2,985,000. This figure represents twenty-eight percent of the Foundation's total budget.

ADF has implemented most of the Office of Technology Assessment's (OTA) recommendations on additional staff training. In FY'89, ADF held three

three-day sessions on training for ADF Washington staff. This training has proven effective in streamlining ADF's grant-making procedures as well as to refine staff skills in project development. In FY'91, ADF plans to initiate training for ADF's African Country Liaison Officers in technology choices, facilitation of greater community participation in project design and implementation as well as efficient methods of grant monitoring and reporting.

ADF Project Results

Kenya Women's Financial Trust
US $152,625 -1985 Grant

ADF provided a grant of US $152,000 in 1985 to Kenya Women's Financial Trust to provide accounting training and credit to disadvantaged women. Approximately 98 percent of the women seeking assistance from the Trust had no idea what their daily inventory was, or how much they were taking in as earnings each day. Instead of viewing their business as a profit-making enterprise, they regarded their businesses as subsistence-employment. And, because of traditional family obligations they had the tendency of mixing family finances with business finances rather than keeping separate accounts. With ADF assistance, the Trust initiated a training course for prospective credit applicants to teach them to understand credit and to better manage their enterprises. To date, over 600 women entrepreneurs have undergone the Trust's training program -- out of which 25 percent have found they needed the training as opposed to a loan.

Women who have successfully completed the Trust's training course are eligible for credit assistance. The Foundation provided the Trust with a US $38,000 loan fund to assist disadvantaged women entrepreneurs in the Nakuru District, who have successfully completed training. The typical borrower profile in the Nakuru District is a head of household, over

thirty years of age and has between three and five children. Loans average from between US $100 for the purchase of a dairy cow to US $1,000 for the purchase of small goods for retailing purposes. Women receiving credit have reported increased monthly income enabling them to pay for piped water, their children's school fees, clothing and additional food products. To date, the Trust has had a 95 percent repayment rate from the loans extended.

Desai Revolving Loan Fund Project- Zambia
US $14,025 - 1985 Grant

ADF funds were used by the Young Women's Christian Association Council of Zambia (YWCA) to set-up a revolving loan fund managed by the Lusaka Branch of YWCA to provide loans to individual weavers located in Desai, an area on the outskirts of Lusaka. Credit provided to the weavers have enabled them to purchase looms and other weaving equipment and to pay rent for their workshop space.

Loans totaling US $370 were provided to five groups of women (each consisting of three) to purchase looms, spinning wheels, other equipment and raw materials. The loans are to be paid back over a five year time period at 18 percent interest. Sixty percent of the women have no formal education and the majority are married with each having between 2 and 8 children. Their ages range from 20 to 53 years of age. Prior to receiving the loan from YWCA in 1985, the women had received training in weaving from YWCA.

ADF's evaluation of the project indicated a 99 percent repayment rate on the Desai weavers loans. In addition, the women had reported their income per month prior to receiving the loan was US $25 and that after starting their weaving enterprises they are now earning US $60 per

month. Some of the women reported monthly income as high as US $80. The women are producing largely carpets and table mats and marketing the locally in Lusaka, Zambia.

Through this project, the women not only have been able to increase their monthly income, they have also been able to make some noticeable home improvements. Some of the women have been able to purchase beds, additional household cooking supplies and have been able to make some modest additions to their homes. Most importantly, the women have been able to afford the fee required to access the main water supply line in Lusaka, providing them with clean drinking water.

Secondary School Farms Project-Tanzania
US $105,996 - 1986 Grant

The Mufindi Education Trust (MET) was established in 1984 as a private non-profit trust to expand secondary education in the Mufindi District. MET schools focus on providing practical hands-on agricultural training to secondary school level students. Prior to MET, there were only 72 secondary students in the one government school. Prior to receiving the ADF grant, MET had constructed and opened five schools that at the time of the ADF grant in 1986 enrolled 400 students. For 1990, MET had a fresh intake of 800 new students this year.

ADF funding was provided to MET to enable them to equip three of its school farms with agricultural mechanic instructors, a team of oxen, milling machines and other farm equipment. The goals of the project were to expand production in the school farms in order to increase nutrition at the schools, to train students in draft animal and mechanized agriculture, and to rent equipment to local farmers to generate income for the continued operation of the schools. With the two grain mills installed at two of the school farms, MET has been able to generate

enough profit to stabilize school fees for the parents. This has resulted in increased enrollment at the MET schools.

Tariro Poultry Project -Zimbabwe

US $27,290 - 1986

The Tariro Psychiatric Rehabilitation Center is a private social service agency in Zimbabwe. The Center, the first of its kind in Zimbabwe, is an out-patient and resident center that treats and houses mentally disabled persons. The Center has 25 in-patients and also provides services to ten out-patients. The therapy provided at the Tariro Center provides patients with an opportunity to acquire skills in poultry raising as part of the rehabilitation process. ADF funds have enabled the Center to construct a chicken house, provide stocking and maintenance of the poultry operation and market the products in the local community.

A recent evaluation of the Tariro Center indicated that the poultry operation has proven very successful for the patients, the surrounding community and in generating some extra income for the Center. According to the evaluation, approximately 400 birds are sold to the community each month from Tariro. Interviews conducted with patients indicate strong support for the poultry operation with the majority indicating that through the additional skills acquired through the poultry unit and the increased contact with community members who purchase the chickens, patients feel a greater sense of self-worth and acceptance in the community. The evaluation indicates that the poultry unit generates enough margin of profit to keep it sustained over time.

Spring Cabinet Cooperative -Zimbabwe

US $207,662 - 1987

The Spring Cabinet Cooperative Society is an industrial cooperative that was established in September of 1986 by twelve unemployed carpenters who

had lost their jobs because their employer (Spring Master, a large furniture manufacturing company) did not recognize Zimbabwe as a viable place to do business after independence. The original twelve members of the cooperative decided to form the cooperative because of a growth spurt of new housing construction in Harare suburbs. The Society manufactures low cost furniture products from locally available timber. Quality products are being produced such as doors, beds, chairs, kitchen units, wardrobes, tables and office furniture. Each member of the cooperative (currently there are 34 members of the cooperative) is a head of household with an average family size of seven members.

With ADF funds, Spring Cabinet has constructed a workshop for its operations and purchased the necessary carpentry supplies (both hand and mechanized) to serve three densely-populated suburbs of Zimbabwe -- Kuwadzana, Warren Park and Dzivaresekwa -- representing a total population of approximately 300,000 people.

The cooperative determines its prices based on the costs of total materials and labor plus a margin of profit of about 25 percent. This makes the cooperatives' furniture quite competitive with both the formal and informal sector producers and the larger companies. In a recent evaluation of the project, cooperative members reported that through the project and the increased sales their monthly income has increased from US $22 per month to currently US $217 per month. According to cooperative members this has allowed them to improve their standard of living and they can now pay for the school fees for their children and purchase clothing.

The cooperative has been so successful that the Zimbabwe Electricity Supply Authority is now providing electricity to the workshop and the cooperative is now providing some training to school leavers in furniture manufacturing. Also, Spring Cabinet indicated in the evaluation that their customers are requesting them to open an upholstery department.

Dakoro Herders Cooperative-Niger

US $135,000 - 1986

Three hundred and fifty herders' families make up the Dakoro Herders Cooperative (roughly 2,000 people). In 1985, the Cooperative received a planning grant of US $7,255 from ADF to design with the help of some technicians an integrated development program that included literacy training, a dry goods store, livestock management and repair of an existing well. As a result of the planning grant, ADF provided Dakoro with US $135,000 to initiate the proposed activities.

Dakoro has successfully completed its project activities which include: a classroom, storage facility, a small dry goods store with a solar panel and a livestock management program that provides small ruminants to households. It is important to note that the Dakoro community consists of nomadic herders who have proven themselves capable of establishing a sedentary livestyle that encompasses their traditions of herding and is economically viable. The Dakoro project is located in a poor pastoral zone north of Maradi and is approximately 1 1/2 days journey from Niamey, the capital city of Niger. The project has attracted so much attention from herders that it has become a magnet community with herders coming to purchase their supplies from the store on a regular basis. As a result of this project, Niger ministry officials who have visited the project and witnessed the activities being undertaken have become sensitized to the ingenuity and determined survival of herding communities and their need for more development resources.

Mr. Chairman and Members of the Subcommittee, this concludes my written testimony. I would be happy to answer any questions you or other Members of the Subcommittee may have.

AFRICAN CHARTER FOR POPULAR PARTICIPATION IN DEVELOPMENT AND TRANSFORMATION (ARUSHA 1990)

PREAMBLE

1. The International Conference on Popular Participation in the Recovery and Development Process in Africa was held, in Arusha, the United Republic of Tanzania from 12 to 16 February 1990, as a rare collaborative effort between African people's organizations, the African governments, non-governmental organizations and the United Nations agencies, in the search for a collective understanding of the role of popular participation in the development and transformation of the region. It was also an occasion to articulate and give renewed focus to the concepts of democratic development, people's solidarity and creativity and self-reliance and to formulate policy recommendations for national governments, popular organizations and the international community in order to strengthen participatory processes and patterns of development. It was the third in a series of major international conferences organized by the Economic Commission for Africa in collaboration with the rest of the United Nations system to contribute to the implementation of the United Nations Programme of Action for African Economic Recovery and Development, 1986-1990 (UN-PAAERD). It came as a sequel to the Abuja International Conference on Africa: The Challenge of Economic Recovery and Accelerated Development held in 1987, and the 1988 Khartoum International Conference on the Human Dimension of Africa's Economic Recovery and Development. It is important to note that the initiative for this Conference came from the submission of the NGOs to the Ad Hoc Committee of the Whole of the General Assembly on the mid-term review and assessment of the implementation of UN-PAAERD in September 1988.

2. The Conference was organized under the auspices of the United Nations Inter-Agency Task Force on the Follow-up on the Implementation of the UN-PAAERD at the Regional Level (UN-IATF) and with the full support and warm hospitality of the government and people of the United Republic of Tanzania. The ECA Conference of Ministers responsible for Economic Development and Planning adopted resolution 664(XXIV) at its twenty-fourth session in which it supported this Conference and urged member states of the Commission, the international community, NGOs and the United Nations system to support and actively participate in it. The Conference was attended by over 500 participants from a wide range of African people's organizations - including, in particular, non-governmental, grass-roots, peasant, women and youth organizations and associations, trade unions and others - as well as representatives of African Governments, agencies of the United Nations system, non-African non-governmental organizations, regional, sub-regional and intergovernmental organizations, bilateral donors, multilateral organizations as well as specialists, both from within and outside Africa. The Conference was opened by H.E. Ali Hassan Mwinyi, President of the United Republic of Tanzania. Opening statements were also made by the representative of the Secretary-General of the United Nations, the Executive Secretary of the Economic Commission for Africa, the representative of the Secretary-General of the Organization of African Unity, the Secretary-General of the Organization of African Trade Union Unity and representatives of the Non-Governmental Organizations, African Women's Organizations and the Pan African Youth Movement. The Conference would like to put on record its appreciation for the full support and warm hospitality of the Government and people of the United Republic of Tanzania.

3. The Conference was organized out of concern for the serious deterioration in the human and economic conditions in Africa in the decade of the 1980s, the recognition of the lack of progress in achieving popular participation and the lack of full appreciation of the role popular participation plays in the process of recovery and development.

4. The objectives of the Conference were to:

(a) Recognize the role of people's participation in Africa's recovery and development efforts;

(b) Sensitize national governments and the international community to the dimensions, dynamics, processes and potential of a development approach rooted in popular initiatives and self-reliant efforts;

(c) Identify obstacles to people's participation in development and define appropriate approaches to the promotion of popular participation in policy formulation, planning, implementation, monitoring and evaluation of development programmes;

(d) Recommend actions to be taken by Governments, the United Nations system as well as the public and private donor agencies in building an enabling environment for authentic popular participation in the development process and

encourage people and their organizations to undertake self-reliant development initiatives;

(e) Facilitate the exchange of information, experience and knowledge for mutual support among people and their organizations; and,

(f) Propose indicators for the monitoring of progress in facilitating people's participation in Africa's development.

5. We, the people, engaged in debate and dialogue on the issues involved over the span of four plenary sessions and fourteen workshops during the five-day long International Conference. In the light of our deliberations, we have decided to place on record our collective analysis, conclusions, policy recommendations and action proposals for the consideration of the people, the African Governments and the international community.

I. ASSERTING THE ROLE OF POPULAR PARTICIPATION

6. We are united in our conviction that the crisis currently engulfing Africa, is not only an economic crisis but also a human, legal, political and social crisis. It is a crisis of unprecedented and unacceptable proportions manifested not only in abysmal declines in economic indicators and trends, but more tragically and glaringly in the suffering, hardship and impoverishment of the vast majority of African people. At the same time, the political context of socio-economic development has been characterized, in many instances, by an over-centralization of power and impediments to the effective participation of the overwhelming majority of the people in social, political and economic development. As a result, the motivation of the majority of African people and their organizations to contribute their best to the development process, and to the betterment of their own well-being as well as their say in national development has been severely constrained and curtailed and their collective and individual creativity has been undervalued and underutilized.

7. We affirm that nations cannot be built without the popular support and full participation of the people, nor can the economic crisis be resolved and the human and economic conditions improved without the full and effective contribution, creativity and popular enthusiasm of the vast majority of the people. After all, it is to the people that the very benefits of development should and must accrue. We are convinced that neither can Africa's perpetual economic crisis be overcome, nor can a bright future for Africa and its people see the light of day unless the structures, pattern and political context of the process of socio-economic development are appropriately altered.

8. We, therefore, have no doubt that at the heart of Africa's development objectives must lie the ultimate and overriding goal of human-centered development that ensures the overall well-being of the people through sustained improvement in their living standards and the full and effective participation of the people in charting their development policies, programmes and processes and contributing to their realization. We furthermore observe that given the current world political and economic situation, Africa is becoming further marginalized in world affairs, both geo-politically and economically. African countries must realize that, more than ever before, their greatest resource is their people and that it is through their active and full participation that Africa can surmount the difficulties that lie ahead.

9. We are convinced that to achieve the above objective will require a re-direction of resources to satisfy, in the first place, the critical needs of the people, to achieve economic and social justice and to emphasize self-reliance on the one hand, and, on the other hand, to empower the people to determine the direction and content of development, and to effectively contribute to the enhancement of production and productivity that are required. Bearing this in mind and having carefully analyzed the structure of the African economies, the root causes of the repeated economic crisis and the strategies and programmes that have hitherto been applied to deal with them, we are convinced that Africa has no alternative but to urgently and immediately embark upon the task of transforming the structure of its economies to achieve long-term self-sustained growth and development that is both human centered and participatory in nature. Furthermore, Africa's grave environmental and ecological crisis cannot be solved in the absence of a process of sustainable development which commands the full support and participation of the people. We believe in this context that the African Alternative Framework

to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation (AAP-SAP) - which was endorsed by the twenty-fifth Assembly of Heads of State and Government of the Organization of African Unity (OAU) held in July 1989, and by the Conference of Heads of the State or Government of Non-Aligned countries held in Belgrade in September 1989 and by the Forty-fourth Session of the General Assembly of the United Nations which invited the international community, including multilateral, financial and development institutions, to consider the framework as a basis for constructive dialogue and fruitful consultation - offers the best framework for such an approach. We also wish in this regard to put on record our disapproval of all economic programmes, such as orthodox Structural Adjustment Programmes, which undermine the human condition and disregard the potential and role of popular participation in self-sustaining development.

10. In our sincere view, popular participation is both a means and an end. As an instrument of development, popular participation provides the driving force for collective commitment for the determination of people-based development processes and willingness by the people to undertake sacrifices and expend their social energies for its execution. As an end in itself, popular participation is the fundamental right of the people to fully and effectively participate in the determination of the decisions which affect their lives at all levels and at all times.

II. PROMOTING POPULAR PARTICIPATION

11. We believe strongly that popular participation is, in essence, the empowerment of the people to effectively involve themselves in creating the structures and in designing policies and programmes that serve the interests of all as well as to effectively contribute to the development process and share equitably in its benefits. Therefore, there must be an opening up of political process to accommodate freedom of opinions, tolerate differences, accept consensus on issues as well as ensure the effective participation of the people and their organizations and associations. This requires action on the part of all, first and foremost of the people themselves. But equally important are the actions of the State and the international community, to create the necessary conditions for such an empowerment and facilitate effective popular participation in societal and economic life. This requires that the political system evolve to allow for democracy and full participation by all sections of our societies.

12. In view of the critical contribution made by women to African societies and economies and the extreme subordination and discrimination suffered by women in Africa, it is the consensus of the participants that the attainment of equal rights by women in social, economic and political spheres must become a central feature of a democratic and participatory pattern of development. Further, it is the consensus of this conference that the attainment of women's full participation must be given highest priority by society as a whole and African Governments in particular. This right should be fought for and defended by society, African Non-Governmental Organizations and Voluntary Development Organizations as well as by non-African Non-Governmental Organisations and Voluntary Development Organizations, Governments and the United Nations system in due recognition of the primary role being played by women now and on the course to recovery and transformation of Africa for better quality of life.

People's Role

13. We want to emphasise the basic fact that the role of the people and their popular organizations is central to the realization of popular participation. They have to be fully involved, committed and indeed, seize the initiative. In this regard, it is essential that they establish independent people's organizations at various levels that are genuinely grass-root, voluntary, democratically administered and self-reliant and that are rooted in the tradition and culture of the society so as to ensure community empowerment and self-development. Consultative machinery at various levels should be established with governments on various aspects of democratic participation. It is crucial that the people and their popular organizations should develop links across national borders to promote co-operation and inter-relationships on sub-regional, regional, south-south and south-north bases. This is necessary for sharing lessons of experience, developing people's solidarity and raising political consciousness on democratic participation.

14. In view of the vital and central role played by women in family well-being and maintenance, their special commitment to the survival, protection and development of children, as well as survival of society and their important role in the process of African recovery and

reconstruction, special emphasis should be put by all the people in terms of eliminating biases particularly with respect to the reduction of the burden on women and taking positive action to ensure their full equality and effective participation in the development process.

15. Having said this, we must underscore that popular participation begins and must be earnestly practiced at the family level, because home is the base for development. It must also be practiced at the work place, and in all organizations, and in all walks of life.

Role of African Governments

16. We strongly believe that popular participation is dependent on the nature of the State itself and ability of Government to respond to popular demand. Since African Governments have a critical role to play in the promotion of popular participation, they have to yield space to the people, without which popular participation will be difficult to achieve. Too often, the social base of power and decision-making are too narrow. Hence the urgent need to broaden these; to galvanize and tap the people's energy and commitment; and to promote political accountability by the State to the people. This makes it imperative that a new partnership between African Governments and the people in the common interest of societal and accelerated socio-economic development should be established without delay. This new partnership must not only recognize the importance of gender issues but must take action to ensure women's involvement at all levels of decision-making. In particular Governments should set themselves specific targets for the appointment of women in senior policy and management posts in all sectors of government.

17. We believe that for people to participate meaningfully in their self-development, their freedom to express themselves and their freedom from fear must be guaranteed. This can only be assured through the extension and protection of people's basic human rights and we urge all Governments to vigorously implement the African Charter on Human and People's Rights and the Universal Declaration of Human Rights, the Convention on the Rights of the Child, the ILO Convention No. 87 concerning Freedom of Association and Protection of the Right to Organize and the Convention on the Elimination of All Forms of Discrimination Against Women.

18. We also believe that one of the key conditions for ensuring people's participation throughout the continent is the bringing to an end of all wars and armed conflicts. The millions of African refugees and displaced persons are those with least opportunity to participate in the determination of their future. We urge Governments and all parties to Africa's conflicts, domestic and external, to seek peaceful means of resolving their differences and of establishing peace throughout Africa. In situations of armed conflicts, we uphold the right of civilians to food and other basic necessities and emphasize that the international community must exercise its moral authority to ensure that this right is protected.

19. We cannot overemphasize the benefits that can be reaped if, with the elimination of internal strife or inter-country conflicts, the resources spent on defence were to be redirected to productive activities and social services to the people. As rightly noted in the African Alternative Framework to Structural Adjustment Programmes for Socio-economic Recovery and Transformation, "it is not difficult to imagine what it would mean to social welfare in Africa, with all its positive multiplier effects, if a saving can be achieved in defence spending and non-productive expenditures". We believe that our Governments can make such savings and we call upon them to do so urgently.

20. We are, however, aware of certain situations, particularly, for the Front-line States which continue to face the destabilization acts of apartheid South Africa. This destabilization results in a debilitating diversion of resources that would otherwise have been used to meet critical basic needs of the people in these countries.

Role of the International Community

21. We call on the international community to examine its own record on popular participation, and hereafter to support indigenous efforts which promote the emergence of a democratic environment and facilitate the people's effective participation and empowerment in the political life of their countries.

22. We also call on the United Nations system to intensify its effort to promote the application of justice in international economic relations, the defence of human rights, the maintenance of peace and the achievement of disarmament and to assist African countries and people's organizations with the development of human and economic resources. We also call

on the United Nations system to implement its own decision to have at least 30 per cent of senior positions held by women . Special efforts are needed to ensure that African women are adequately represented at senior levels in United Nations agencies, particularly those operating in Africa.

III. POPULAR PARTICIPATION IN DEVELOPMENT

23. On the basis of the foregoing, we lay down the following basic strategies, modalities and actions for effective participation in development.

A. At the level of Governments

1. African Governments must adopt development strategies, approaches and programmes, the content and parameters of which are in line with the interest and aspirations of the people and which incorporate, rather than alienate, African values and economic, social, cultural, political and environmental realities.

2. We strongly urge African Governments to promote the formulation and implementation of national development programmes within the framework of the aforesaid aspirations, interests and realities, which develop as a result of a popular participatory process, and which aim at the transformation of the African economies to achieve self-reliant and self-sustaining people-centered development based on popular participation and democratic consensus.

3. In implementing these endogenous and people-centered development strategies, an enabling environment must be created to facilitate broad-based participation, on a decentralized-basis, in the development process. Such an enabling environment is an essential pre-requisite for the stimulation of initiatives and creativity and for enhancing output and productivity by actions such as:

   (i) extending more economic power to the people through the equitable distribution of income, support for their productive capacity through enhanced access to productive inputs, such as land, credit, technology, etc., and in such a manner as to reflect the central role played by women in the economy;

   (ii) promoting mass literacy and skills training in particular and development of human resources in general;

   (iii) greater participation and consensus-building in the formulation and implementation of economic and social policies at all levels, including the identification and elimination of laws and bureaucratic procedures that pose obstacles to people's participation;

   (iv) increasing employment opportunities for the rural and urban poor, expanding opportunities for them to contribute to the generation of output and enhanced productivity levels and creating better marketing conditions for the benefit of the producers; and,

   (v) strengthening communication capacities for rural development, mass literacy etc.

4. Small-scale indigenous entrepreneurship and producers co-operatives, as forms of productive participatory development, should be promoted and actions should be taken to increase their productivity.

5. Intensifying the efforts to achieve sub-regional and regional economic co-operation and integration and increased intra-African trade.

B. At the level of the people and their organizations

To foster participation and democratic development, the people and their organizations should

1. Establish autonomous grass-roots organizations to promote participatory self-reliant development and increase the output and productivity of the masses.

2. Develop their capacity to participate effectively in debates on economic policy and development issues. This requires building people's capacity to formulate and analyse development programmes and approaches.

3. Promote education, literacy skill training and human resource development as a means of enhancing popular participation.

4. Shake off lethargy and traditional beliefs that are impediments to development, especially the customs and cultural practices that undermine the status of women in society, while recognizing and valuing those beliefs and practices that contribute to development. Rural and urban people's organizations, such as workers, peasants, women, youth, students etc., should be encouraged to initiate and implement strategies to strengthen their productive power and meet their basic needs.

5. Concerted efforts should be made to change prevailing attitudes towards the disabled so as to integrate them and bring them into the main stream of development.

6. Create and enhance networks and collaborative relationships among peoples organizations. This will have the effect of social involvement capable of inducing social change.

7. People's organizations should support strongly and participate in the efforts to promote effective sub-regional and regional economic co-operation and integration and intra-African trade.

C. At the level of the International Community

We also call on the international community to support popular participation in Africa by:

1. Supporting African countries in their drive to internalize the development and transformation process. The IMF, World Bank and other bilateral and multilateral donors are urged to accept and support African initiatives to conceptualize, formulate and implement endogenously designed development and transformation programmes.

2. Directing technical assistance programmes, first and foremost, to the strengthening of national capabilities for policy analysis and the design and implementation of economic reform and development programmes.

3. Fostering the democratization of development in African countries by supporting the decentralization of development processes, the active participation of the people and their organizations in the formulation of development strategies and economic reform programmes and open debate and consensus - building processes on development and reform issues.

4. Allowing for the release of resources for development on a participatory basis which will require the reversal of the net outflow of financial resources from Africa to the multilateral financial institutions and donor countries and their use for development purposes and for the benefit of the people.

5. Reducing drastically the stock of Africa's debt and debt-servicing obligations and providing a long-term period of moratorium on remaining debt-servicing obligations in order to release resources for financing development and transformation on a participatory basis.

6. Ensuring that the human dimension is central to adjustment programmes which must be compatible with the objectives and aspirations of the African people and with African realities and must be conceived and designed internally by African countries as part and parcel of the long-term objectives and framework of development and transformation.

7. Supporting African NGOs, grass-roots organizations, women's and youth organizations and trade unions in activities such as training, networking and other programme activities, as well as the documentation, and wide dissemination of their experiences.

D. At the level of NGOS and VDOs

The African and non-African NGOs and VDOs have an important role in supporting recovery and developement efforts and popular participation initiatives and organizations in Africa. They are urged to take the following actions:

1. African NGOs and VDOs and their partners should be fully participatory, democratic and accountable.

2. African NGOs, VDOs and GROs should develop and/or strengthen institutional structures at the regional sub-regional and national levels, such as FAVDO, to bring them together.

3. African NGOs and VDOs should broaden the dissemination of successful African popular participation and grass-root experiences throughout the continent and the exchange of experience thereon to create a multiplier effect and sensitize policy-makers.

4. The International Conference on Popular Participation is clear in its recognition of the value of the contribution of grass-roots organizations and NGOs to Africa's development and demonstrates that effective dialogue between governments, NGOs and grass-roots organizations is essential and valuable. This Conference recommends that national fora be established to enable honest and open dialogue between African Governments, grass-roots organizations and NGOs in order that the experience of grass-roots participatory development informs national policy-making.

5. Non-African NGOs and VDOs should give increased support and target their operations within the framework of national economic strategies and reform programmes aimed at transforming the structures of the African economies with a view to internalizing the development process and ensuring its sustainability with a particular focus on the human dimension and people's participation.

6. Non-African NGOs and VDOs should give due recognition to African NGOs and participatory, self-reliant development initiatives launched by African grass-roots organizations.

7. Non-African NGOs and VDOs should utilize African expertise to the maximum extent possible with regard to their development work in Africa and advocacy and campaigning work at the international level.

8. Non-African NGOs should strengthen their advocacy work internationally and in their home countries and with regard to bilateral donors and the multilateral system, closely monitoring their response to the African crisis and holding donor governments and agencies accountable for their policies and actions. In particular, non-African and African NGOs should formulate a programme of action geared towards their fullest participation in the end-term review of UN-PAAERD.

9. Co-operation and dialogue between African and Non-African NGOs and VDOs should be strengthened to increase the effectiveness of their interventions at the community level and the building of greater understanding on the part of international public opinion of the real causes of the African socio-economic crisis and the actions that are needed to deal with its root causes.

10. Non-African NGOs acknowledge that their influence as donors is often detrimental to ensuring genuine partnership with African NGOs, VDOs and grass-root organizations and affects the enabling environment for popular participation. In that context co-operation in all its forms must be transparent and reflect African priorities.

11. African and non-African NGOs and VDOs should, in addition to their traditional humanitarian activities, increasingly provide support for the productive capacities of the African poor and for promoting environmentally sound patterns of local development.

E. At level of the Media and communication

1. The national and regional media should make every effort to fight for and defend their freedom at all cost, and make special effort to champion the cause of popular participation and publicize activities and programmes thereof and generally provide access for the dissemination of information and education programmes on popular participation.

2. Combining their indigenous communication systems with appropriate use of modern low-cost communications technology, African communities and NGOs, VDOs and trade unions and other mass organizations must strengthen their communication capacities for development. Regional and national NGOs should participate in the assessment of Africa's Development Support Communication Needs to be carried out under the auspices of the United Nations Steering Committee and the United Nations Inter-Agency Task Force on UN-PAAERD.

F. At the level of women's organizations

In ensuring that the participation of women in the development process is advanced and strengthened, popular women's organizations should:

1. Continue to strengthen their capacity as builders of confidence among women;

2. Strive for the attainment of policies and programmes that reflect and recognize women's roles as producers, mothers, active community mobilizers and custodians of culture;

3. Work to ensure the full understanding of men, in particular, and the society, in general, of women's role in the recovery and transformation of Africa so that men and women together might articulate and pursue appropriate courses of action;

4. Implement measures to reduce the burden carried by women through: (a) advocating to the society at large, including central and local government levels, the importance of task sharing in the home and community, especially in the areas of water and wood fetching, child rearing etc.; (b) promoting the establishment and proper functioning of community-based day care centers in all communities; and, (c) striving to attain economic equality by advocating the rights of women to land and greater access to credit.

5. Women's organizations should be democratic, autonomous and accountable organizations.

G. At the level of organised labour

Trade Unions should:

1. Be democratic, voluntary, autonomous and accountable organizations.

2. Initiate, animate and promote mass literacy and training programmes.

3. Organize and mobilize rural workers in accordance with ILO Convention 141, which African Governments are strongly urged to ratify.

4. Defend trade union rights, in particular the right to strike.

5. Assist in the formation of workers' co-operatives.

6. Assist in organizing the unemployed for productive activities, such as the establishment of small and medium scale enterprises.

7. Give special attention to effective and democratic participation of women members at all levels of trade unions.

8. Promote work place democracy through the call for the protection of workers' rights to freedom of association, collective bargaining and participatory management.

H. At the level of youth and students and their organizations

Considering the centrality of the youth and students in Africa's population and the recovery and development process, the following actions should be taken:

1. Preparation and adoption of an African Charter on Youth and Student Rights to include the right to organize, education, employment and free and public expression.

2. The full democratic participation of youth and students in African society requires immediate steps by Government, popular organizations, parents and the youth themselves to eliminate the major impediments to youth participation, such as frequent bans on youth and student organizations, police brutality against unarmed protesting students, detention and harassment on campuses, dismissal from studies and the frequent and arbitrary closure of educational institutions.

3. Youth, students, Governments and the international community must join forces urgently to combat growing drug trafficking and drug abuse. We also urge Governments to sign and ratify the International Convention on the Illicit Trafficking of Drugs and Psychotropic Substances.

4. The advancement of youth participation in development also requires the protection of Africa's minors against forced military service, whether in national or insurgent/rebel groups.

5. African youth and students should organize national autonomous associations to participate in and contribute to development activities and programmes such as literacy, reafforestation, agriculture and environmental protection.

6. Student and youth organizations must also strive to be democratic, accountable, voluntary and autonomous and should co-ordinate their activities with workers', women's and peasant organizations.

7. National youth and student organizations should take urgent steps to strengthen and further democratise existing pan-African youth and student organizations to make them play their roles more effectively in Africa's development process.

IV. MONITORING POPULAR PARTICIPATION

24. We proclaim the urgent necessity to involve the people in monitoring popular participation in Africa on the basis of agreed indicators and we propose the use of the following indicators, which are not necessarily exhaustive, for measuring the progress in the implementation of the recommendations of the Charter.

1. The literacy rate, which is an index of the capacity for mass participation in public debate, decision-making and general development processes;

2. Freedom of association, especially political association, and presence of democratic institutions, such as political parties, trade unions, people's grass-root organizations and professional associations, and the guarantee of constitutional rights.

3. Representation of the people and their organizations in national bodies.

4. The rule of law and social and economic justice, including equitable distribution of income and the creation of full employment opportunities.

5. Protection of the ecological, human and legal environment.

6. Press and media freedom to facilitate public debate on major issues.

7. Number and scope of grassroots organizations with effective participation in development activities, producers and consumers co-operatives and community projects.

8. Extent of implementation of the Abuja Declaration on Women (1989) in each country.

9. Political accountability of leadership at all levels measured by the use of checks and balances;

10. Decentralization of decision-making processes and institutions.

25. We are convinced of the imperative necessity to follow-up and monitor the implementation of this Charter and to report periodically thereon on progress achieved as well as problems encountered. We accordingly recommend that at the national level a follow-up mechanism on which representatives at high level of Government, trade unions, women's organizations, NGOs, VDOs, grass-roots and youth and student organizations will be members.

26. At the regional level, we propose a joint OAU/ECA Regional Monitoring Machinery on which also, in addition to representatives of these two organizations will be representatives of the network of organizations named above. This regional monitoring group will submit biennial progress reports on the implementation of the Charter to the ECA Conference of Ministers and the Assembly of Heads of State and Government of the OAU.

CONCLUSION

27. This Conference has taken place during a period when the world continues to witness tumultuous changes in Eastern Europe. Even more dramatically, this Conference has taken place during the very week when Nelson Mandela's release has exhilarated all of Africa, and galvanised the international community.

28. There is an inescapable thread of continuity between those events and our Conference; it is the power of people to effect momentous change. At no other time in the post-war period has popular participation had so astonishing and profound an impact.

29. History and experience both teach that this world never works in compartments. The forces of freedom and democracy are contagious. Inevitably, and irresistibly, popular participation will have a vital role to play on the continent of Africa, and play that role we will.

30. It is manifestly unacceptable that development and transformation in Africa, can proceed without the full participation of its people. It is manifestly unacceptable that the people and their organizations be excluded from the decision-making process. It is manifestly unacceptable that popular participation be seen as anything less than the centerpiece in the struggle to achieve economic and social justice for all.

31. In promoting popular participation, it is necessary to recognize that a new partnership and compact must be forged among all the ACTORS in the process of social, political and economic change. Without this collective commitment, popular participation is neither possible nor capable of producing results. We, therefore, pledge to work together in this new partnership to promote full and effective participation by the masses together with Governments in the recovery and development process in Africa.

32. We, the people here assembled, have no illusion that the Charter will be embraced overnight by all of those to whom it is directed. But we are confident that this document is an indispensable step on the road to everything we would wish for the people of Africa.

Done at Arusha, The United Republic of Tanzania
16 February 1990

RESOLUTION 1

TRANSMITTAL OF THE AFRICAN CHARTER FOR POPULAR PARTICIPATION IN DEVELOPMENT AND TRANSFORMATION (ARUSHA, 1990)

TO

THE OAU MINISTERIAL COUNCIL AND ECA CONFERENCE OF MINISTERS

The Conference:

Recalling General Assembly resolution S-13/2 on the United Nations Programme of Action for African Economic Recovery and Development, 1986-1990 (UN-PAAERD),

Recalling also General Assembly resolution 43/27 and its annex on the mid-term review and appraisal of the implementation of UN-PAAERD,

Mindful of ECA Conference of Ministers resolution 664 (XXIV) entitled "International Conference on Popular Participation in the Recovery and Development Process in Africa",

Aware of the need to mobilize support from every quarter for promoting Popular Participation in the recovery and development process in Africa,

1. Expresses its deep appreciation to the Government and People of the United Republic of Tanzania for having hosted the meeting so generously;

2. Also expresses its appreciations to His Excellency Ali Hassan Mwinyi, President of the United Republic of Tanzania, for officially opening the Conference and for the inspiring address which he delivered;

3. Requests the Government of the United Republic of Tanzania to transmit the African Charter for Popular Participation in Development and Transformation (Arusha, 1990) to both the Twenty-sixth Session of the Assembly of Heads of State and Government of the OAU and to the Forty-fifth Session of the General Assembly of the United Nations for their information and such necessary action as they may deem fit.

RESOLUTION 2

INTERNATIONAL CONFERENCE ON POPULAR PARTICIPATION IN THE RECOVERY AND DEVELOPMENT PROCESS IN AFRICA
POPULAR PARTICIPATION DAY IN AFRICA

The Conference:

Recognizing that without popular participation there can be no true and lasting development for Africa,

Rejoicing that this Conference coincided with the release of Nelson Mandela on 11 February 1990 who sacrificed his freedom for his belief in the right of the people to decide their own future,

Recognizing that Governments, agencies of the United Nations system and non-governmental organizations are giving increased importance to the role of participation as a means to and an end of development,

Affirming the need to acknowledge the efforts and sacrifices of grass-roots and people's organizations to make popular participation a reality,

Resolves that henceforth the eleventh day of February each year should be proclaimed Popular Participation Day in Africa,

Recommends that the Executive Secretary of ECA should bring this resolution before the forthcoming meeting of the ECA Conference of Ministers in May 1990 and thereafter to the General Assembly of the United Nations at its Forty-fifth Session as well as to the Fifty-second Session of the Council of Ministers of the OAU and the Twenty-sixth Session of the Assembly of Heads of State and Government of the OAU.

RESOLUTION 3

TRANSMITTAL OF THE AFRICAN CHARTER FOR POPULAR PARTICIPATION IN DEVELOPMENT AND TRANSFORMATION (ARUSHA, 1990) TO THE ASSEMBLY OF HEADS OF STATE OF THE OAU AND UN GENERAL ASSEMBLY

The Conference:

Recalling General Assembly resolution S-13/2 on the United Nations Programme of Action for African Economic Recovery and Development, 1986-1990 (UN-PAAERD),

Recalling also General Assembly resolution 43/27 and its annex on the mid-term review and appraisal of the implementation of UN-PAAERD,

Mindful of ECA Conference of Ministers resolution 664 (XXIV) entitled "International Conference on Popular Participation in the Recovery and Development Process in Africa",

1. **Requests** the Executive Secretary of ECA to submit the CHARTER to the Sixteenth Meeting of the ECA Conference of Ministers,

2. **Invites** the Secretary-General of the OAU in collaboration with the Executive Secretary of ECA to submit the CHARTER to the Fifty-second Session of the Council of Ministers of the OAU.

[From the World Reporter, September 1989]

SAVINGS AND MEMBERSHIP GROWTH

(By Chet Aeschliman)

It is now well known that even in the so-called "poor" villages, the peasants save millions of francs. But since there are not always bank branch offices or a credit union nearby to which peasants can entrust their money, most of these savings stay hidden in mattresses, in house roofs or buried, hoarded and, therefore, no longer available to their countrymen who have profitable projects to be financed in the village. On the other hand, these very same individuals go to the omnipresent moneylenders to try to satisfy their needs, despite the fact they pay astronomical interest rates (360% per annum or even more) to their creditors.

This would seem to be a very fertile market for credit unions, but after 20 years of credit union development, the amount of deposits mobilized in most rural credit unions remains insignificant. Why have credit unions failed to flourish more in rural areas? To sum it up: lack of trust. This lack of trust comes from the non-existence of suitable structures capable of guaranteeing the vitality of cooperative action in members' eyes.

It is a vicious circle from which about 90 Togolese rural credit unions would like to avoid. To be sure, these credit unions exist, collect some savings from their members and make a few loans to them. But since these credit unions are usually managed by non-professional volunteers, the work is not done as correctly as one would desire.

On the other hand, the credit unions are afraid to hire a salaried manager because they fear that the cost would put them in the red. Furthermore, these credit unions do not have offices with business hours convenient for members. As a result, current and potential members hesitate to entrust a significant portion of their savings to their credit union. Experience elsewhere shows that hiring a manager is one of the essential conditions for a credit union to "take off." For when a credit union has an office with a visibly-qualified manager, open during regular hours convenient for members, management becomes sound and the resulting confidence makes possible a very considerable growth in savings.

Objectives

The African Development Foundation (ADF) Project was designed to break this vicious circle by providing permanent management for rural credit unions, thereby raising the level of member trust and resulting in an important increase in institutionalized savings in these credit unions, which would create a democratic and self-sufficient financial institution responsive to local needs.

An interesting component of the first Togo's national credit union federation (FUCEC-Togo) five-year plan was financing the construction of modest offices for 15 rural credit unions with loan capital from the U.S. Agency for International Development (U.S. AID) grant. To make this investment more profitable, FUCEC-Togo has decided that it would be good to complement the construction with other forms of assistance. This additional assistance has been described in a project proposal submitted in March 1985 to the African Development Foundation (ADF) entitled Rural Credit Union Viability Project. The "ADF Project" was approved and signed during the first quarter of 1985, but was not actually implemented until a year later in September 1986 because of a considerable delay in ADF's first disbursement and administrative problems at the FUCEC-Togo end.

The ADF Project is an experiment in rural

The Togo Project

The World Council's first project to help develop Togo's national credit union movement began in July 1980. Working with CONAUDEC, the national committee for the development of credit unions, four objectives were realized: training field staff, expanding credit union services, developing CONAUDEC's planning capabilities and installing financial management systems. At the end of the project, CONAUDEC was transformed into FUCEC-TOGO, the national, democratic credit union federation.

The second development project, Togo II, began in October 1983 and ended in December 1988. Ambitious in scope, some 13 objectives were attempted, including the creation of a central financial facility; productive credit for farmers; training and education; improving FUCEC's central administration, financial management, communication and planning activities; initiating risk management services; consolidating and liquidating some credit unions; and establishing regional offices. By the end of 1988, more than 15,000 members in 108 credit unions had mobilized CFAF$800 million (US$2.5 million).

Togo III began in January 1989 and is a follow-up project to further assist FUCEC-TOGO and will run until September 1993.

The African Development Foundation's assistance joined with that of the other project partners to address a particularly important need—to bring rural credit unions past the threshold of self-sufficiency to a take-off point for dynamic growth.

Table A

Summary of the Objectives of the ADF Project

Indicator	Start-up (estimate)	First year	Second year	Third year
Number of members	60	100	200	300
Savings (deposits and shares	1,000,000F	1,500,000F	2,250,000F	3,000,000F
% delinquency	30%	20%	15%	10%
Loan interest rate (min.)	14%	18%	20%	20%
Interest rate on savings	N/A	8%	8.5%	8.75%

Currency in CFA francs. (307CFA = US$1.00)

Togolese financial markets. FUCEC-Togo feels that, by means of providing certain forms of assistance to rural credit unions and improving financial services provided to rural inhabitants, significant credit union growth can be achieved. Before the ADF Project, even among the best managed rural credit unions, growth—whether in membership or in deposits and assets—was

Even in poor villages peasants save.

insufficient to reach the break-even point within a reasonable time frame. Aside from the medium term interest free financing for office building (the portion financed by USAID), the ADF Project provides the following assistance to each credit union for a five year period:

- Salary (15,000 CFA Francs a month) for one part time manager for three years.
- Annual promotional campaigns.
- Annual training (continuing education) for each manager.
- Access to loans from the FUCEC-Togo Central Credit Union, if the credit union complies with the Central's credit policy.

Additionally, the ADF was to undertake a baseline study to facilitate an eventual evaluation of the degree of success of the project. Fifteen credit unions were to participate: six starting in the first year, with five new credit unions the second year and four more in the third year.

The first 10 credit unions chosen were picked objectively on the basis of an index of traditional financial management institution soundness. This procedure has been followed up to see that the best credit unions were impartially chosen.

Among the objectives cited in the project, it is expected that each participating credit union should at least reach the progress indicators in Table A.

An important aspect of the viability program was an increase in the interest-rate structure for loans and deposits alike. In fact, all participating credit unions have adopted an interest rate of 24% per annum. At that rate, their break-even points are around 4 and 5 million CFA Francs in assets. Each credit union has had to sign an agreement promising to respect the interest-rate policy and keep at least 20% of its deposits in the Central, among other things.

Results

All but two of the 15 credit unions have exceeded savings growth targets, substantially in most cases. Eleven credit unions have already exceeded the savings targets. Similarly, membership has tripled in the group. Growth rates accelerated immediately after the project started in October, 1986, but not initially enough to achieve growth targets. It was after the first promotion program in early 1988 that FUCEC-TOGO knew the project's strategy was working: membership and savings surged during the first quarter of 1988. FUCEC-TOGO calculates that the 15 credit unions had 1,450 more members and 46 million CFA Central Africa Francs more savings than they would have had if pre-project growth trends continued. Savings and membership growth is shown in Tables B and C, respectively.

Certainly the project has succeeded in its principal objective: a substantial acceleration of the mobilization of savings and number of members. Equally impressive has been the improvement in management. The group is more profitable any way it's calculated: the rate of return on loans went from 8% pre-project to

Table B

Consolidated Savings Growth (1984-1989)
ADF Credit Unions

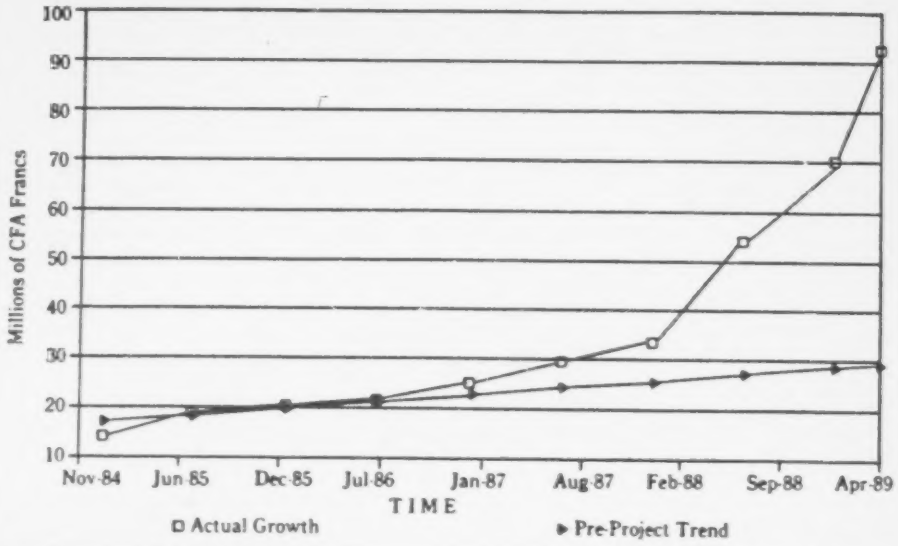
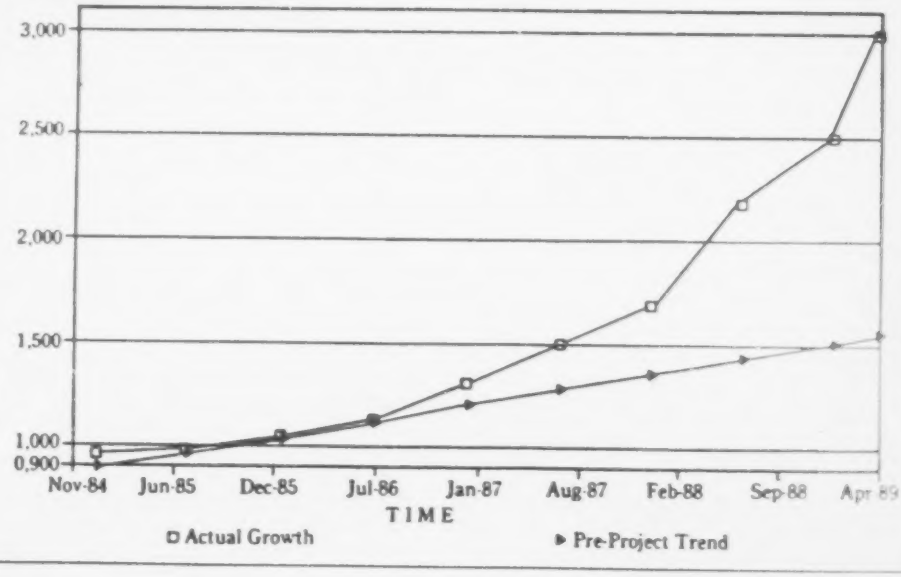


Table C

Membership Growth (1984-1989)
All ADF Credit Unions Taken Together



23% after the first 30 months. Liquidity management has dramatically improved, with 50% of member deposit savings now on deposit in FUCEC-TOGO's Central Fund. Measures of solvency improved substantially, although increases in short-term loan delinquency in a couple of credit unions during the first quarter of 1989 has caused a hopefully temporary reversal of this trend. Still, it is worth pointing out the ADF credit unions delinquency is only one-third of that of rural credit unions as a whole.

Overall, for each dollar granted to the credit unions, approximately 7.5 dollars of new deposit savings was generated as a direct result of the project, or, in other words, the new capital cost about 13%. In the third (and latest) group, each dollar invested produced US$17 in new deposit savings (cost = 6%). Grants averaged about US$2,000 per credit union over the 30-month period, or around $13 per new member attributable to the program. FUCEC-TOGO thinks this to be a reasonable cost to rapidly attain break-even.

Variation among credit unions

Membership as of March 1989 in individual ADF credit unions varied from 97 to 492, and deposit savings from 1,482,468 CFA to 18,411,733 CFA. If the program was implemented more or less the same everywhere, why did some credit unions do so much better than others? Stepwise multiple regressions statistical analysis was performed on a great number of possible factors, but more than 80% of the variation is explained by four factors:

- Location in a cash crop (coffee, cocoa or cotton) zone.
- Location in a large market town.
- The quality of the manager.
- The annual volume of loans granted.

Interestingly, no statistically significant relationship was found between growth and interest rates (on loans or on deposits), supporting Togolese movement leaders' view that access to loans is the primary motivation for joining a credit union, certainly not the loans' cost.

As the program is extended to 50 additional credit unions under a new USAID grant, FUCEC-TOGO should, to the extent possible, select participating credit unions principally from villages located in cash crop zones or which have large markets, and insist on hiring demonstrably honest, capable, and dynamic managers.

QUESTIONS SUBMITTED BY SENATOR BARBARA MIKULSKI

1. Q. Does ADF have a policy of rewarding those nations that are taking steps toward needed economic reforms relative to those countries that do not?

   A. Under its legislative mandate, ADF is not tied to short-term U.S. foreign policy objectives, like the Peace Corps. In addition, ADF does not function as a government-to-government program. Rather, it operates in accordance with the philosophy, now gaining increasing currency with major donor agencies, that sustainable development is best served by providing assistance directly to the private sector at the grassroots level of society. For these reasons, ADF does not consider it appropriate to direct its assistance in a manner designed to influence the conduct of African governments with respect to economic reform. Nor, given the size of the ADF budget, would such a policy be realistic.

   However, experience has shown that economic reform has created opportunities for project funding. ADF has received project requests from groups seeking to carry on functions formerly performed by parastatals disbanded by reform minded governments, and from groups of former civil servants seeking to start enterprises as an alternative to employment, terminated as part of government work force reductions. By funding alternatives to governmental services, we believe that we are promoting economic reform by helping to alleviate some of the economic stresses created by rapid privatization. On the more positive side, by funding enterprises in the private sector, we believe that we are providing an opportunity to demonstrate the benefits of non-government, entrepreneurial activity.

2. Q. How do ADF programs contribute to children's well-being? Has ADF formulated a strategy or programs that are specific to the needs of children?

   A. Many ADF funded projects respond directly to the needs of children in the areas of health, through the provision of clean water, education, particularly vocational training, and most importantly, nutrition, through the funding of projects designed to increase agricultural productivity. However, rather than initiating programs or projects, ADF responds to requests for assistance, to ensure that the projects funded truly represent the perceived needs and aspirations of the recipients. Therefore, we have not developed strategies or programs that focus on particular sectors of development; but have instead focused on requests for assistance which will have the greatest impact on the most disadvantaged people in society. As children invariably comprise a high percentage of persons in this category, they, together with women, have benefitted proportionally from ADF assistance.

3. Q. How is ADF addressing the problem of population growth? "Why has ADF resisted efforts" to set a minimum level of funding, within the ADF account, for population programs?

   A. As noted above, ADF emphasizes the importance of remaining responsive to requests for assistance from private African grassroots organizations. Only in this way, can the Foundation be sure that the projects it funds truly reflect the aspirations of those who will benefit from them and be responsible for implementing them. The Board of Directors has, however, required that in selecting projects from among the those submitted to the Foundation for consideration, ADF choose only those capable of generating sufficient income to ensure their sustainability. This policy is designed to maximize the opportunity for on-going development after project funding has terminated thus avoiding long-term donor dependency.

   While I am not aware that ADF has "resisted efforts" to set a minimum level of funding for population programs, it is apparent that to do so would be inconsistent with the fundamental policies I have outlined above. First, ADF is an organization with only a small budget to address needs which range over a broad area. Consequently, we have consistently avoided setting dollar limits for any sector of development. Further, population projects, no matter how worthy or critical to development, do not ordinarily generate the income needed to insure self-sufficiency. Support for such a program would, therefore, require a long-term commitment which ADF, an agency created to respond to small-scale grassroots needs, would be ill-equipped financially or philosophically to meet.

4. Q. I note that ADF has provided grants to women's projects in Kenya and Tanzania. Is ADF integrating women into all of its projects? Has ADF taken advantage of the matching fund in the Women in Development office at AID?

   A. Since 1987, the African Development Foundation has funded 30 women's development projects or roughly 10% of the project portfolio. There are women's projects in 18 of the 21 countries where the Foundation is currently funding development projects. The majority of the projects are in gardening, small animal husbandry and cottage industry. However, several projects fall outside of those sectors which are traditionally viewed as women's activities. These include a women's carpentry project, an ice and cold storage facility, a cooperative store, vocational schools, marketing shares for a women's bank and job training for disabled women in Southern Africa.

The participation of women in the design, implementation and management of projects is a critical factor in the Foundation's decision to fund/not fund projects. Their participation is verified by pre-funding site visits as well as project monitoring visits throughout the life of the project. The involvement of women in ADF projects is a norm and there are very few exceptions.

In addition to development projects the Foundation also funds research projects and awards fellowships. There are currently seven Doctoral/Senior Fellowships, which have been awarded to women, and two women have received funding to conduct "action research". The principal investigator of a major research initiative which will address women's roles in economic and social development is a woman. All are African researchers and scholars.

The research being conducted includes women and micro-enterprise, health and nutrition needs of women and children, agriculture production and food security, as well as the previously mentioned initiative.

The Foundation has not accessed matching funds from AID's Women in Development Office. To date, the matching funds have primarily been used to augment WID programming at the AID missions. Currently, the Women in Development Office is refining some of their criteria and procedures and recent discussions with the WID Director raises the potential for closer collaboration in women's programming efforts.

INTER-AMERICAN FOUNDATION

STATEMENT OF DEBORAH SZEKELY, PRESIDENT

Introduction

Mr. Chairman, it is always an honor to testify before the Subcommittee on Foreign Operations on behalf of the Inter-American Foundation. You might recall that I bid farewell last year. However, after reassessing what would be best for the Foundation in this time of transition, I decided to continue serving as President for a while longer.

The President has requested a Fiscal Year 1991 appropriation of $16.941 million for the Foundation. This sum would be combined with an estimated $13.655 million in Social Progress Trust Fund (SPTF) resources to yield a total budget of $30.596 million. Eighty-one percent of this sum, $24.727 million, would support grassroots development in Latin America and the Caribbean. The remaining $5.869 million would be allocated for administrative expenses.

Fiscal Year 1989 Program

During Fiscal Year 1989, the Foundation continued to enthusiastically support grassroots development throughout Latin America and the Caribbean by assisting the growing network of private, community-based organizations. Two hundred and eight (208) grants and 175 grant supplements were approved to support a wide diversity of grassroots initiatives. Grantee matching contributions, either in-kind or cash, equaled $1.22 in FY 1989 for every Foundation dollar provided. The average FY 1989 grant was $69,500, compared to $72,000 in FY 1988, and $105,000 for the period FY 1972-87.

As in past years, a large share of the Foundation's resources assisted rural development activities. In FY 1989, 44% of all grants supported a variety of food production, agricultural, and eco-development projects.

Small-scale microenterprises absorbed 17 percent of the Foundation's program resources. These grants supported programs that provide managerial and technical skills training, improve marketing techniques, and assist in establishing revolving credit funds.

Twenty-four percent of program funds supported educational and training programs consisting of networking exchanges, materials development, adult literacy courses, and vocational, accounting, and production skills training.

Community services received ten percent of the Foundation's program funds. These grants assisted housing initiatives, legal services programs, potable water and sanitation systems development, and basic health education and services.

Rather than go on at length, I refer you to the Foundation's FY 1991 Budget Congressional budget submission which provides detailed information on the entire program. Instead, my testimony will focus on what I have learned from the Foundation during the past five years.

Latin America's Asset--the People

Say "Third World" to most North Americans and it conjures up a disastrous twenty-first century vision of the Four Horsemen of the Apocalypse: demagogues, drugs, debt, and destruction of natural resources.

We who work in these countries, however, have another vision. We see the people as strong, energetic folk determined to carve out a better future. Although most Latin Americans and Caribbeans are very poor, many see themselves as entrepreneurs in the classic sense. They seek to create jobs for themselves that provide their families (and most have many children) with at least the bare essentials.

Basic survival needs are so pressing and education so lacking that grassroots groups of these industrious people seldom have the opportunity to consider alternatives. The Foundation often helps them to do just that as they use their limited resources to resolve pressing problems.

Over the past 20 years, we have helped to improve many lives and have added considerably to the body of knowledge about sustainable development. In this way, the Foundation has become the innovative development laboratory that Congress originally intended it to be.

Finding and Funding the Organized Poor

Since our first day in 1971, the Inter-American Foundation began to seek out and support Latin American grassroots groups engaged in self-help development. In 1971, there were few grassroots support organizations (GSOs). Those that did exist offered the poor their first taste of democracy by soliciting their ideas and opinions and providing them with training and financial support.

Today, thousands of GSOs are thriving as witnessed by the proliferation of directories and information sources about this self-help movement. The remarkable growth of GSOs is part of a

new reality. We have learned that stand-alone projects are limited in scope and rarely replicable because people, needs, customs, and environments vary. We have also learned that once a "key" to a successful grassroots venture is revealed, the most effective way to broaden its impact is by training trainers to share these keys through direct participation.

During my first four years as Foundation President, we analyzed our own experience, learned from it, and documented the progress and failures of those we supported. We shared our discoveries with diverse audiences by substantially increasing the Foundation's development publications and using video to highlight several particularly noteworthy projects.

Today, the Foundation is poised to do even more by utilizing its cumulative experience. Our successes can be further enhanced through networking which multiplies the impact of key projects. Likewise, many Foundation-supported GSOs have established their own networks to coordinate information-sharing activities throughout the hemisphere. These, too, we support by facilitating learning exchanges.

The Eureka Factor

Five years ago, I began the first of many field visits to every country in which the Foundation works. On that trip, four projects stood out as examples of what I call the "Eureka!" factor: initiatives that offer "keys" to lasting development. Since then, I have devoted my energies to spreading the "Eureka!" factor by supporting programs that train trainers and enhance networking opportunities.

But I also was curious to know if the successes I saw on that first trip had stood the test of time. Therefore, I revisited

these four projects in 1989. What I found was tremendously important and illustrated how development innovations can be disseminated and lessons multiplied.

The first stop on my four-country tour was the Women's Construction Collective in Kingston, Jamaica, which received a $180,150 grant to help ten unemployed young women start their own construction and carpentry business. How it has flourished!

The ten have become 100 skilled women employed in the building trades. I laughed when one of them said, "I used to envy the secretaries with their long shiny nails and their shiny dresses. But now they envy me when I open my pay envelope and all that lovely money falls out."

A Foundation-commissioned video about this group has inspired other poor women to seek opportunities to more effectively better their lives. Recently, a similiar project modeled on the Jamaican Women's Construction Collective was inaugurated in Mexico City.

The Foundation also plans to facilitate networking by other women's groups working in very low-paying occupations--such as the sewing and knitting members of the 200 Circulos Femeninos in Venezuela--so that they can visit the Jamaica project and learn how they might apply self-help techniques.

My second stop took me to a mother/teacher project in Caracas, Venezuela, sponsored by the Centros Comunitarios de Aprendizaje (CECODAP). In 1986, the Foundation provided CECODAP with $174,970 to train mothers to run Montessori-style, neighborhood

day-care/pre-school centers. The participants, low-income women with limited educations, receive certificates when they complete their training. Those who complete three years of service/study in the centers receive credit from the Universidad Experimental Simón Rodríguez towards a degree in primary education. Thirteen women have earned certificates, and their new credentials have helped them secure better paying jobs.

Foundation support has also enabled CECODAP to establish a "training the trainers" center. The Foundation hopes to arrange visits for women's groups from throughout the region to learn about the self-help techniques successfully used by the mother/teachers of Caracas.

In Bolivia, my destination was the Casa de Cultura in Santa Cruz. This project, which received a $177,619 grant in 1986, serves overcrowded barrios in which ambitious youngsters find little or no support for intellectual endeavor. Four years ago, I visited the five community libraries and study centers which Casa de Cultura operated. Today there are ten libraries and two more are under construction!

On my recent visit I found that each facility included a library/study with an eclectic collection of 500 books ranging from classic literature to simple "how-to" manuals. Although it was vacation time, each library was filled with young people reading, studying, or playing chess or checkers. A graduate student, his salary paid for by the City of Santa Cruz, assisted students with their homework and functioned as a counselor/librarian. There also were workshop rooms for crafts, dance, and other cultural activities. At one center,

people were preparing lunch for the elderly and handicapped--a few pennies a plate; at another they were planting a vegetable garden.

I am convinced that the Casa de Cultura program can be replicated in communities throughout Latin America as a low-cost and highly effective learning model for the young. My expectation is that the Foundation will continue to encourage and support such educational breakthroughs that have been proven to reduce, by a significant percentage, the drop-out rate.

My last stop was Santiago, Chile, where I once again called upon the teacher/trainers at the Centro de Educación y Tecnología (CET). The Foundation provided CET with $166,950 in 1986 to train the trainers who work in poor urban and rural communities in sustainable agricultural techniques and low-cost housing alternatives. CET has also used Foundation support to host a series of three-week workshops attended by 200 agricultural extensionists from 15 Latin American countries. These "re-trained" agricultural extensionists learned that enormous amounts of money can be saved by substituting organic composting methods for chemical fertilizers and pesticides. By teaching such techniques, the extensionists trained by CET will help peasant communities to practice ecologically-sound farming techniques while enhancing their production.

Taken together, these four "revisitations" confirm my belief that once a wheel is invented it should be put on a fast locomotive, not a wheelbarrow. The Foundation's mission is to synchronize these wheels of development so that they can carry the tried and true experiences of the people we support to those who can benefit from their knowledge.

The Social Progress Trust Fund

To continue building upon the gains achieved during the past five years, the Foundation must begin to replace the rapidly diminishing Social Progress Trust Fund ("SPTF") resources. The 1989-1991 SPTF Agreement between the United States Government and the Inter-American Development Bank provides the Foundation with $44.1 million in SPTF resources. This sum represents the entire SPTF availability for this period and is approximately one-half of the total SPTF resources which were available during the preceding three years.

In FY 1991, the Foundation will use approximately $13.6 million in SPTF local currencies to support its program. This sum represents approximately 44% of the Foundation's projected FY 1991 operating budget. The Foundation's proposed FY 1991 budget reflects the Administration's commitment to offset the reduced SPTF funds with increasing appropriated resources. We anticipate that future requests for appropriated funds will follow this approach.

After 1991, however, there will be substantially smaller amounts of SPTF funds available. I must underscore that unless these funds are replaced with appropriated dollars, the Foundation will be unable to maintain its current program and will be required to substantially reduce its support for many of this hemisphere's most innovative self-help programs.

New Challenges--Bold Responses

In this, the last decade before a new millennium, we can see clearly the challenges ahead. Facing them calls for boldness. Development problems have become increasingly complex and intractable as the Third World urbanizes. Addressing these

mounting problems will challenge the Foundation's ingenuity and creativity.

Among the third world's chief stumbling blocks to development, lack of educational opportunity is paramount. In Latin America and the Caribbean, well over half of the children who attend school drop out during the first four years of primary education.

To address these challenges, the Foundation proposes to do the following:

- Facilitate networking efforts by promoting the training-the-trainers approach as the best way to expand the development process.
- Facilitate and finance hemisphere-wide development through networking and interactive participation.
- Seek and support key programs that offer the most to the greatest number of beneficiaries and continue to identify and disseminate their "Eureka!" factors.
- Refine and expand the fellowship program to strengthen South to North and North to South development research and education avenues.

Conclusion

It is with great reluctance that I will soon leave an institution which has provided me with one of the most rewarding and pleasant experiences of my life. I am deeply grateful for the support, confidence, and guidance provided by the Foundation staff, the board of directors, and especially past and current members of Congress who created, inspired, and supported the Foundation over the past twenty years. The next ten years constitute the decade of decision for Latin American

and Caribbean development. With your support, I know that the Foundation will continue to make a significant contribution.

As I commented in last year's testimony, I remain committed to the concept articulated 20 years ago by Representatives Dante Fascell and Brad Morse that this Government needs a foreign assistance agency which can be a passport for learning and change. My efforts during the past five years have been guided by this fundamental principle. This is the Foundation's greatest strength and why your continued support is so essential.

Mr. Chairman, I would be pleased to answer any questions which you and your colleagues may have.

Thank you very much.

PEACE CORPS

STATEMENT OF PAUL D. COVERDELL, DIRECTOR

In America, and indeed throughout much of the world there is a sense of euphoria over many of the events of 1989.

The indelible images of this remarkable year will be forever etched in history:

- President Bush delivering a speech at Karl Marx University in Budapest.

- Lech Walesa addressing a joint session of the U.S. Congress.

- A playwright elected to lead the government of Czechoslovakia.

- A dictator toppled in Romania

- The Iron Curtain unraveling from the Baltic to the Adriatic.

We could be entering what *Fortune* magazine calls "The Era of Possibilities" -- an era, their editors claim, in which democracy's global advance will continue; the dangers of large scale war will diminish; economic performance rather than military power will increasingly be the index of national power; our global village will get smarter and smaller, and economic interdependence will increase.

These are thrilling possibilities, but there were events in 1989 which might foretell a different future.

The Cold War has ended, and for that we should be grateful. Totalitarianism was clearly the loser in that struggle and we are entering an era that is exciting, but also perilous. Democracy and free enterprise may eventually prove to be the dominant political forces on the globe, but the final verdict depends on how our systems respond to the challenges before us -- not only the turmoil in Eastern Europe, but also the

drug cartels in Latin America, starvation in Africa, the urbanization of the developing world and the environmental crisis affecting the entire planet.

As this new era unfolds, the one certainty is that our global village will continue to become more compact in terms of transportation, communications and economic interdependence. What happens today in Moscow, Tokyo, Tegucigalpa or Nairobi will be felt **minutes** later in Burlington, Des Moines, Atlanta and San Francisco. The new era will be one in which international cooperation will be essential, not just desirable. It will be an era in which the most powerful nations will be those that are the **most totally and comfortably international in their outlook**. It will be an era in which the nations that have achieved a degree of economic stability and prosperity for 1/4 of the world's population, must recognize that it is in their own self interest to help those nations representing the other 3/4 of the world's people achieve a decent standard of living.

It will be an era of great responsibility and enormous challenge for the United States Peace Corps.

The rapid changes in Eastern Europe have captured our imagination, just as the difficulties and suffering of its people have captured our hearts. And as President Bush announced in July in Budapest, and the Congress enthusiastically endorsed in the FY '90 budget, Peace Corps will be part of our nation's response to the people of Eastern Europe. Hungary and Poland will become the 100th and 101st nations in which Peace Corps will have served.

The needs are great in these nations and others in Asia, Africa, the Pacific Basin and Latin America.

Reporting recently from Warsaw, our Director of International Development, shared this anecdote:

"We talked with a distinguished doctor from the academy of science and heard about the deplorable health conditions. Because he had connections he got a decent mattress -- on the hospital floor. Essential medical needs for the hospital stay come from family and friends.

Clearly, there are many needs in both Hungary and Poland, and although our first volunteers to both nations will be teaching English, we expect to launch other programs, possibly in health, environment and small business development within the next two years.

And, there are other nations in Eastern Europe which have expressed interest in Peace Corps programs -- Czechoslovakia, Romania, East Germany, and now Bulgaria.

As the walls of mortar and barbed wire dividing East from West have crumbled, there has been unleashed a surge of enthusiasm for the values and institutions of America, and I believe the United States Peace Corps is unique among America's institutions in its ability to respond to this interest. Who better to communicate what America is about than Americans? And what other organization can provide an American presence for such a small investment of resources?

EXPANSION

While responding enthusiastically to the requests from Eastern Europe, America can not afford to forget its commitment to the 3/4 of the world's population living in the developing world. Here too, nations are revisiting America and its institutions, and the Peace Corps is responding. We are restoring programs this year in Haiti, Bolivia and Cote d' Ivoire, and we have received requests from at least 14 other nations, including Uganda, Namibia and Guyana.

We estimate that every time we open a new program, it costs approximately $1 million. To train and maintain a volunteer for a year is approximately $30 thousand. Based on the President's request for $181 million FY91, we plan now to enter a number of new countries and resume activities in others where we have been invited back.

My purpose in sharing with you some of these details is to suggest that it is not business as usual at the Peace Corps. This new decade we have entered is one that has already put incredible demands on the Peace Corps. Our volunteers are

looked upon the world over as agents of positive change.Indeed, they represent the largest American presence in more than 40% of the countries where volunteers serve. They represent a potent force for democracy. They are the best face of America wherever they go, if not the most cost effective.

This phenomenon --- this growing demand for the Peace Corps makes us determined from the outset to look for ways for us to meet as many requests for service as we possibly can. I estimated that in FY 90, it would take an additional $12 million. Even with Gramm Rudman, we have nearly achieved that through careful budgeting. In FY 91, the $181 million mark will enable us to make significant progress toward our goal. And to set the stage for '92, when, as you have just heard, the line outside our door will be ever longer.

PROGRAM PRIORITIES AND INITIATIVES

New program emphases during these years will be the environment, small business development and urban development. I have now traveled to 17 Peace Corps countries and met with more than a thousand volunteers, as well as the heads of state in the countries where they serve. All are in agreement that these areas require special emphasis, indeed they may spell the difference between survival or not for many of the world's people with whom we work.

1.Environment - Peace Corps intends to be at the forefront of accepting the responsibility for protecting this planet's fragile environment. With expanding populations and the need to grow more food, farmers in the developing world are often using hazardous chemicals that are banned everywhere but in the developing world. Tropical forests are being cleared annually for farming and fuelwood. The earth's primary rain forests could vanish in the next half-century.

Nearly 700 volunteers are currently involved in forestry extension, agroforestry, forestry management, wildlife management, national park biological studies and environmental education. We expect to expand this number by 30 percent within the next two years.

To implement this initiative as fully as possible, we have signed a pioneering collaborative agreement with the Environmental Protection Agency. At the time of the signing, President Bush hailed it as a joint venture in the service of the global environment.

Under the framework provided by the agreement, EPA will train volunteers in solid waste management, water pollution prevention and pesticide management. While today, more than 1 out of every 10 volunteers works in the environment, by the end of 1992, we hope to have every volunteer engaged in some form of environmental activity during their service.

2.Small business development -- Perhaps the most important geopolitical forces at work throughout the world are the emergence of market economies, urbanization, and rapid population growth. By the year 2005, urban population will exceed rural population in the developing world. There is a growing need for non-agricultural employment that Peace Corps small business programs address. In Mali, volunteers work with the Chamber of Commerce to develop business education classes. In Honduras, cocoa farmers are being encouraged by a Penn State agribusiness graduate to begin processing the cocoa they grow instead of exporting it. Peace Corps volunteers bring the international marketplace to the village level wherever they work.

It's important also to note that by strengthening the economies of the third world, we will strengthen our own. The fact is that these countries already provide a large part of our total imports. And today we export more to the developing world than we do to Western Europe and Japan.

3. Urban program - Teeming cities in the developing world face almost insurmountable problems. The number of unplanned metropolitan areas is growing daily. Millions are homeless. Many have no income. Water supplies and transportation are poor, and education is lacking. The number of people living in urban settings will double in the next 28 years.

Over the same period, Peace Corps will redouble its efforts in urban community planning and services, vocational and

youth development, and promotion of an expanded infrastructure. Today, more than 25% of all Peace Corps volunteers are located in cities of over 30,000 people. Countries where there are significantly higher percentages of urban volunteers include: Cameroon (37%), Philippines (47%); Malawi (67%); Jamaica (41%); and Morocco (46%).

In Costa Rica, volunteers work with local cooperatives to identify households eligible for low-income housing and loans, as well as assist in training construction groups. In Costa Rica, Honduras and the Philippines, volunteers are working on programs to reach and care for street children.

We are currently working to develop or expand other collaborative agreements that will enable us to more fully meet the enormous demands I have only briefly outlined here. In addition to our work with EPA, we also have joint programs with AID and the Department of Agriculture. It's my intention that we will explore every possibility for this kind of collaboration and cooperation as we move ahead, which I believe will ultimately enable us to do more and do what we do more effectively.

AMERICAN AGENDA

Peace Corps has a mandated American agenda by virtue of the third goal of our original legislation --- to educate Americans about the people of the developing world. We intend to reaffirm that by reaching out to all Americans. My "American Agenda" taps into the expertise of Peace Corps volunteers present and past and provides manifold opportunities for involvement to everyone from school children to business executives to volunteers who served 15 and 20 years ago.

1. World Wise Schools - Peace Corps is playing an important role in increasing America's awareness of, and concern for, the plight of our world neighbors. Through our *World Wise Schools* program, we are bringing the volunteer experience into our nation's classrooms by linking Peace Corps volunteers in the field with elementary school classes here

at home. The students and the volunteers share letters, music, artifacts and other materials, causing students to become more aware of other lands and cultures. Launched at the beginning of the 1989-'90 school year, we have already linked more than 700 active Peace Corps volunteers with elementary school classes in the United States. By January of 1991, we hope to have almost every volunteer linked to a class and thousands of other schools benefiting from materials produced by our *World Wise Schools* program.

When John F. Kennedy founded the Peace Corps, he challenged his audience to volunteer, saying, "On your willingness to contribute part of your life to this country, I think, will depend the answer to whether we as a free society can compete."

As competitiveness stimulated the Peace Corps at the outset, so is it a central point in the design of the World Wise Schools initiative. President Bush has forcefully argued that the continued greatness of the United States will be inextricably tied to education. World Wise Schools taps into assets previously unused, which we hope will reap the educational and cross-cultural dividends clearly envisioned by President Kennedy 29 years ago and reinforced vigorously by President Bush regularly.

2. Partners for Peace - Through our Private Sector Relations office, we have worked to expand our linkages with the private sector to enhance the work of the volunteers through project assistance as well as through major donations. The Apple Computer company has donated 90 computers for use exclusively by volunteers. Asgrow has donated five tons of seeds, worth more than $300,000, for use overseas. One generous citizen, impressed after a trip to Guinea with the buying power of the dollar, contributed $60 thousand to set up a revolving loan fund there. The educational planning symposium in Budapest that brought together key leaders to design our Hungary program was underwritten by an Hungarian American eager to participate. There are more than I can list here, but I mention them to underscore the fact that I am committed to finding as many avenues for resources as possible to enhance the essential work of every Peace Corps volunteer.

3. Minority recruitment - While recruitment of qualified volunteers is a an ever-present challenge for us, I have renewed and redoubled the agency's commitment.The Peace Corps has always valued diversity. Volunteers from all walks of life have shared their skills for a better world over the years. In the upcoming year, however, we aim to demonstrably increase the percentage of minorities serving.

We are renewing relationships with the historically black institutions and today here in Washington have convened a conference of 200 universities and I can assure you that minority recruitment is a major topic on the agenda.

4. University programs - We currently have cooperative agreements with more than 200 universities around the country. Some are Master's degree programs for returning volunteers --- one in particular at Columbia University under which recently returned volunteers teach in the city schools in return for free tuition for their Masters degree, underwritten by Xerox, is a standout --- while others build and capitalize on the volunteer's overseas experience to prepare them for the next stage of their career. We are presently working to design models for these unique programs so they can be replicated across the land --- enriching our society as well as making Peace Corps service all the more appealing.

ADMINISTRATION/MANAGEMENT

To support the work of more than 6,500 volunteers serving in the farthest reaches of the world requires that Peace Corps have in place an administrative and management infrastructure that is efficient and responsive to an ever-widening range of needs. Medical care. Transportation. Information management. Record management. Communications. For a small agency, there are large demands made on us.

We have also performed an intensive study of the impact of the Federal Employee Compensation Act on the agency and it is important to note that the dramatic increases in costs associated with this continue to take larger and larger

chunks of our appropriation each year. In an effort to control this "uncontrollable", we have instituted new systems within the agency that will permit us to have tighter administration. However, even with the excellent preventive health care system we provide, some unfortunately become ill, and once they are in the FECA system, we are liable for what often becomes a lifetime of care.So too are we liable if one of our older volunteers requires specialized care while in service. As we look at an agency growing older, with an increasing number of volunteers, we can only expect that this percentage increase will continue to grow exponentially, cutting a wide swath in our capacity to support current and future volunteers.

The Peace Corps is unique among employers for its five-year rule. While it will no doubt always spawn lively debate as to whether it is a positive or negative force in the agency, I, like its initiator, Sargent Shriver, am firmly in support of it. I have moved to eliminate one of its by-products, however --- the lack of an institutional memory. Peace Corps employees are so enthusiastic and energetic during their five years that they have spent little time documenting their work. A system has been put in place that will ensure that we document, catalogue and preserve each program so a decision trail will be available to the next person who might otherwise have to reinvent the wheel.

In addition, we have nearly completed the automation of the agency and are hopeful that the day will soon be at hand when we have a worldwide network up and running.

During the past year, the agency moved the operations of its regional evaluation offices to Washington, a change we feel will bring about economies as well as efficiencies in recruitment and placement.

RECRUITMENT

Over 120 Peace Corps recruiters working out of 56 local recruitment offices and college campuses across the nation generate more than 14,000 applications from potential Peace Corps volunteers every year. Of these, 3,200 went into

service. The average age of those recruited is 32, largely due to the fact that we have no upper age limit and 12% of our volunteers are over 55. Seven percent of our volunteers are minorities.

The numbers tell the story. There are more Americans willing and qualified to serve than we can accommodate, and it's not easy telling anyone who is so well motivated that we simply do not have room.

VISION FOR THE FUTURE

Over the years, Peace Corps has always struggled with how to best measure its success. Should it be by the number of volunteers in service at any particular time (as Congress has suggested)? Should it be in numbers of people fed, or taught? Should it be based on each volunteer having reached specific goals? Or will it be when we work ourselves out of a job in each of the countries where we serve?

As Peace Corps looks to the 21st century, I believe it behooves us to set up the infrastructure necessary to pursue peace in as many countries and regions of the world as possible. Having done that, we will be able to accommodate the ten thousand volunteers of the original vision, if not the 20,000 envisioned by others. I am persuaded by the demand for volunteers in so many quarters I described earlier that we **are** entering a decade where the possibilities for peace abound. The first and most necessary step, it seems to me, is to "plant our flag" in each of these nations, and then begin the process of building.

I am convinced that the chief reason why Peace Corps continues to flourish is the power each individual volunteer as he or she goes about doing a job that needs to be done. Since the beginning, Congress has understood the power and richness of this unique program. I look to you at this important juncture for guidance, support and indeed, your participation, and now I look forward to answering your questions.

QUESTIONS SUBMITTED BY SENATOR DANIEL INOUYE

Question 1:

Mr. Coverdell, with the development of democracy in Eastern Europe, I understand that Peace Corps Volunteers will be serving in Eastern Europe. While this is a welcome step in assisting these nations in their transition to democracy, I hope that the needs of the developing world will not be sacrificed so that the nations of Eastern Europe can be served. Is the percentage of resources to be devoted to the developing world going to increase, or will it be reduced, as part of the efforts to assist Eastern Europe?

Answer 1:

In FY 1990 the Peace Corps devoted to Central European programming the funds that had been earmarked by the Congress for that purpose. It has not been - and it will not be - our intention to detract from established programs in developing countries or from new programming in "traditional" Peace Corps countries. The record speaks for itself:

- This year Peace Corps entered Poland and Hungary in Central Europe. We also began or restarted programs in Bolivia, Cote d'Ivoire, Haiti, Malta, Namibia, Panama, Sao Tome and Principe, and Vanuatu.

- In FY 91 the Peace Corps will enter the Czech and Slovak Republic, Bulgaria, and possibly Romania in Central Europe. We will also enter Chile, the Congo, Laos, Mongolia, Panama, Nicaragua, and Uganda.

- In FY 92, current plans call for the Peace Corps to enter Yugoslavia in Central Europe. Plans also call for us to enter Bangladesh, Mozambique, Nigeria, Guyana, Turkey, and Uruguay.

Question 2:

With the concern over the environment becoming a global one, what percentage of the Peace Corps' resources are being devoted to addressing the needs of the environment such as the preservation of the tropical rain forests?

Answer 2:

Peace Corps allocated approximately 10% of its budget ($17 million) to support the more than 600 Volunteers currently participating in environmental projects in over 45 Peace Corps countries. This is the single largest force of environmental workers in the world.

Yet well beyond the work of these 600 Volunteers is the integration of environmental concerns in every aspect of Peace Corps programming. This past year saw the signing of a historic agreement between the Environmental Protection Agency and the Peace Corps that will assure training in sound environmental practices for all Peace Corps Volunteers. Next week EPA Administrator Reilly and I will participate in the opening of the East-West Environmental Center in Budapest, a resource of potentially great impact which our staffs have collaborated in developing.

As to the 600 Volunteers' assignments, two thirds are in the forestry areas: agroforestry, extension, and management.

One-third are pursuing projects in environmental education, wildlife management, national parks, biological diversity, and soil conservation.

In FY 89 Peace Corps, through its Participating Agency Service Agreement (PASA) with AID, utilized approximately $520,000 to provide technical training, program assessments, and material support. Some 300 Peace Corps Volunteers and 260 host-country counterparts received training and programming assistance in the areas of nursery management, agroforestry, and forestry extension.

QUESTIONS SUBMITTED BY SENATOR BARBARA MIKULSKI

Question 1:

Most of the Peace Corps' experience has been in Third World Countries. Since the Peace Corps' newest clients, Poland and Hungary, are quite different in nature from those countries, what exactly has been done to develop a plan for these two countries.

Answer 1:

Although the countries of Central Europe are quite different from "traditional" Peace Corps countries, we respond to them as we have to all requests for Peace Corps assistance over nearly thirty years. The first Peace Corps Volunteer taught English, as have many thousands in the years since. Our first Volunteers in Central Europe will teach English, the language of commerce and technology. We anticipate that the two-way lessons in mutual understanding that will take place in Central Europe will be very similar to those occurring in the rest of Peace Corps' world.

As we are asked to begin programs in other fields, such as small business development and the environment, we will continue to recruit Volunteers with appropriate skills for these new programs, or for additional countries, as they are needed and can be funded. Our extensive recruitment network, including established relationships with dozens of America's finest institutions of higher learning, professional associations, and community organizations have allowed us to be able to respond to the widest variety of requests from our host countries. We expect this will continue to be true in Central Europe as well.

Question 2:

What organizations in both countries have been consulted, and what organizations or institutions does the Peace Corps intend to cooperate with?

Answer 2:

The initial requests for Peace Corps assistance were from the Ministries of Foreign Affairs and were made through the State

Department. The English language programs are administered through the Ministries of Education in both countries. The Peace Corps TEFL program is based on input from the Ministries of Education and, through them, dialogues with individual schools have begun.

In opening the Small Business Development program in Poland, the Peace Corps has been working with the Polish Ministry of Local Government.

With the assistance of the Ministries in Poland and Hungary currently supporting Peace Corps programs, efforts have been made to explore future programming options and build support systems for Volunteers. These contacts include Ministries, private voluntary organizations, and local institutions.

Through participation in the federal East European Assistance Program, the Peace Corps is coordinating its Central Europe programs with those of other federal agencies, such as AID, USIA, and the Departments of Labor and Commerce, among others.

Question 3:

In an effort to find personnel with a knowledge of the relevant language and culture, will the Peace Corps recruit volunteers from the Policy and Hungarian American communities?

Answer 3:

The Peace Corps recruitment system is designed to identify willing American volunteers who best match the needs identified by host countries, for whom we then provide training in language and cross-cultural understanding. We place a priority on reflecting the face of our nation in all its diversity. For that reason no special effort has been made to recruit Americans of Central European background for these programs.

Nonetheless, the vast amount of publicity surrounding the entry of Peace Corps into Central Europe has produced an especially strong interest in Peace Corps from Americans of Central European ancestry. They are part of the large pool of qualified applicants from which we draw our Trainees.

EXPORT-IMPORT BANK OF THE UNITED STATES

STATEMENT OF JOHN MACOMBER, CHAIRMAN AND PRESIDENT,

I welcome the opportunity to discuss the Bush Administration's Fiscal Year '91 budget request for the Export-Import Bank.

This is a difficult period in which most domestic and international programs of the Federal Government are being required to make budget cut backs. Eximbank has tailored our budget request to overall spending limitations and to the need to comply with the provisions of the Gramm-Rudman-Hollings legislation.

As the new decade unfolds, our country is confronted as never before by international economic challenges which will shape (the future of) America and the rest of the world far into the twenty first century. Our response to change -- in Japan and the Asian NICs, the indebted developing countries, the increasingly integrated European Community, or newly emerging democracies -- can create tremendous opportunities for the American business and banking communities.

The Export-Import Bank is already responding to the needs of newly emerging democracies as diverse as Poland, Czechoslovakia and Panama. In these nations, trade and investment opportunities are essential if a market economy is to take hold. Eximbank's assumption of commercial and political risks enables American banks and exporters to participate in this transformation.

On March 1, 1990, the Bank extended short term export credit insurance to cover U.S. exports to Poland. The insurance is offered through Eximbank's agent, the Foreign Credit Insurance Association (FCIA). Coverage is available for sales to either private or public sector Polish buyers. This Eximbank program complements the proposed $200 million Trade Credit Insurance Program (TCIP) guaranteed by AID. TCIP will be limited to

supporting sales to private sector buyers. The Bank's new country policy for Poland was adopted in response to the Polish Government's implementation of its historic economic reforms, and the support Poland is receiving from multilateral and bilateral sources.

On March 6, the Bank opened all of its programs to support U.S. exports to Czechoslovakia. We acted just two weeks after President Bush lifted the prohibitions on Eximbank financing by signing a waiver of the Jackson-Vanik amendment, and by issuing a determination that Eximbank support for exports to Czechoslovakia is in the U.S. national interest.

We are particularly pleased to be open in Czechoslovakia as the Czechs have been outspoken in their preference for trade and investment opportunities rather than more traditional forms of foreign assistance. For Eastern Europe as a whole, we estimate that demand for all of our programs will be in the range of $300 to $500 million per year.

Turning for a moment to another region of the world, Eximbank resumed short and medium-term cover for U.S. exports to Panama in mid-February. We believe that in this one country alone, pent up demand for our financing could reach the $400 million level.

Eximbank looks forward to the challenge of operating successfully in an expanded international environment. To achieve our objectives of financing and promoting U.S. exports by operating all our programs -- export loans, guarantees and insurance -- we must have sufficient funding levels and sufficient administrative resources.

DIRECT CREDIT PROGRAM

The Bush Administration's budget request for FY'91 includes $500 million for direct loans of the Export-Import Bank. This request is made in recognition of the very limited resources in the international affairs account.

Through the Direct Credit Program, Eximbank addresses gaps in the availability of competitive financing from the private sector for U.S. capital goods exports. We want to ensure that U.S. exporters do not suffer widespread losses of export sales as a result of subsidized financing offered by other governments to their exporters. Eximbank's Direct Credits are competitive with the financing offered by foreign export credit agencies.

Thus, the Bank permits a foreign buyer's purchasing decisions to be based on market factors -- such as price, technology and service -- rather than the availability of subsidized credit from a foreign government.

We believe that the long-term benefits to the U.S. economy generated by government supported competitive export financing of U.S. capital goods outweigh the subsidy costs of such credits.

The Bank helps to maintain U.S. productivity by allowing free market forces to operate. We ensure that U.S. capital goods industries operate at market-determined -- and not foreign government determined -- production levels.

The interest rates charged by Eximbank are the minimum rates allowed under agreement with other member nations of the Organization of Economic Cooperation and Development(OECD). The rates are revised semiannually to reflect changes in the weighted average interest rates on government bond issues in the five major international currencies. The rates for loans of over five years are currently 9.65% for intermediate countries and 8.30% for relatively poor countries. Export Credit Agencies do not offer subsidized lending to rich countries.

Exceptions to the OECD minimum rate structure are allowed for mixed credits, where official aid and an export credit are blended into one financing package.

The Eximbank direct loan program is vitally important to financing exports to countries like India, Indonesia, Algeria and, increasingly, to Central and South America. Official export credit in these developing country markets is vigorously competitive. In fact, in some of these countries, suppliers are often required to bring heavily subsidized or mixed credit financing to the table.

Tied Aid "War Chest"

We request that up to $114 million of the amount requested for direct loans be made available for the tied-aid credit "War Chest" to counter foreign tied aid credits. This is an increase of $4 million over the $110 million Congress appropriated in FY'90.

The issue of tied aid credits will be pursued within the framework of the OECD, but the negotiations will be long and arduous. The U.S. will need the leverage of the Bank's War Chest in FY'91 to achieve progress in the negotiations.

From FY'87 to FY'89, the Bank has used all of its direct loan authority. We expect that the loan authority for FY'90 of $612.4 million and the requested FY'91 amount of $500 million will also be entirely used.

Intermediary Loan Program

Eximbank's Intermediary Loan Program enables responsible parties to extend O.E.C.D. minimum fixed-rate, medium-term or long-term export loans to buyers of U.S. exports that face officially subsidized competition.

Fixed-rate financing is often necessary for a U.S. exporter to obtain a foreign order, yet commercial banks and others are often reluctant to provide fixed interest rates due to fluctuations in their cost of funds over the term of the loan.

Eximbank's medium term Intermediary Loans are structured as "stand-by" loan commitments. The intermediary lender may request disbursement from the Bank at any time during the life of the loan to the foreign buyer.

In FY'89 the Bank authorized $201.7 million of intermediary loans.

GUARANTEE AND INSURANCE PROGRAMS

The Bush Administration's budget request for FY'91 for the Bank's guarantee and insurance commitments is $10.599 billion.

Under our guarantee and insurance programs, the Bank increases commercial financing for U.S. export sales by assuming certain commercial and political risks of non-payment. Since financing is a critical element in many export sales, these programs help U.S. exporters increase their export sales by increasing the availability of financing in private capital markets.

The export credit insurance program encourages additional exports by providing risk protection for those exports requiring short-term (up to 180 days) and medium-term (up to five years) credit terms and for which private sector credit insurance is not available. The capacity of the private sector to offer export credit insurance currently is extremely limited. Thus, the role of the public sector is critically important, especially to small and medium-sized businesses.

Administrative Expenses

The Bank has requested $23,171,000 for FY'91 for administrative expenses.

The administrative expense budget of the Bank provides for personnel, support services, and operating expenses. Our request

will support a full-time equivalent personnel level of 336. Of the amount requested, $17,428,000 (75%) is for personnel compensation and benefits, $2,321,000 (10%) is for rent of office space, and $481,000 (2%) is for travel. The remaining balance of $2,941,000 covers such necessary operating expenses as telecommunications, purchases of supplies, support services, equipment leasing and maintenance, printing, postage, and other service contracts.

Loan and Guarantee Loss Reserves

I would like to comment here on the $4.8 billion loan loss reserve which the Bank established for its loan and guarantee portfolio. The reserve puts us fully in compliance with the accounting requirements of the G.A.O.

Our action simply revalued some of the loans in the Bank's portfolio and, in no way implies debt forgiveness. We still expect our loans to be repaid in full.

The existence of a reserve will strengthen the Bank and will enhance the Bank's ability to carry forward its export support mission. The focus of debate over the Bank's activities has already shifted away from the question of accounting for the value of old loans to a more productive debate over the many pressing issues currently facing us.

The loan loss reserve is, of course, an accounting change and not a cash transaction. It will not affect the U.S. Government's budget or the FY '91 budget request for Eximbank.

CITY/STATE PROGRAM

I would like to bring the Subcommittee up to date on the activities and results of our effort to reach smaller and medium-

sized companies through state and local export finance and development agencies -- the Eximbank City/State Program.

In February of 1989, the Bank's Board of Directors approved the City/State Program as a national outreach program. The Board's action was based in the significant success achieved with a pilot program of cooperation with the states of California, Maryland and Massachusetts, and with the cities of Los Angeles, CA; Tucson, AZ; Louisville, KY; and Columbus, OH.

The City/State Program offers export counseling and financial assistance to small and medium-sized businesses through nearby state and local agencies. The program also vastly expands our access to small and mid-sized business communities in the participating regions.

I am pleased to report that to date, the City/State Program has generated exports of more than $20 million. We have expanded participation in the Program to include the states of Washington, Nevada, Texas and Michigan. Utah and the Port Authority of New York/New Jersey have recently completed our training. Interest has also been expressed by Louisiana, Pennsylvania, North Carolina, New Mexico and Bridgeport, Connecticut.

The City/State Program has substantially contributed to Eximbank's ability to meet the Congressional Mandate to assist small and medium-sized businesses.

Last year, Congress mandated a new sublimit of $215 million on our medium and smaller sized transactions. These continue to be a very important part of our overall business and now account for approximately 30% of Eximbank transactions. We estimate that we will reach the $215 million level sometime in the fourth quarter of this year.

Thank you for giving me an opportunity to outline our budget request for the coming fiscal year. We look forward to working with the Subcommittee members and staff to meet the challenge facing our exporters in the traditional markets of South America, Asia, and Africa as well as the emerging markets of Eastern Europe and Central America. I will be glad to answer any questions you or members of the Subcommittee may have.

QUESTIONS SUBMITTED BY SENATOR DANIEL INOUYE

Question: According to a recent report, 40 percent of the Export-Import Bank's total loan portfolio is in default. Iraq's record on loan repayments is among the Bank's poorest, causing it to suspend all new loans in 1985. Subsequently, the Bank has resumed loaning to Iraq, in effect ignoring its your own internal assessment that Baghdad is a bad credit risk.

Why does the Export-Import Bank continue to throw good money after bad when your bank has expressed skepticism about the credit worthiness of Iraq?

Answer: In November 1984 the United States resumed full diplomatic relations with the Government of Iraq. At that time, Eximbank's total exposure with Iraq was approximately $46 million, all of which was short term; i.e., less than one year repayment maturities. Eximbank's policy toward Iraq in November of 1984 was to provide only short term FCIA insurance under an irrevocable letter of credit issued by Bank Rafidain or the Central Bank of Iraq.

In March of 1986 Eximbank went "off cover" in Iraq because of Bank Rafidain delinquencies of approximately $5 million. By February 1987, Bank Rafidain had paid in full all delinquencies and the Government of Iraq was current on approximately $4.6 million of remaining FCIA exposure.

In April 1987, Eximbank resumed cover in Iraq under an FCIA short term $200 million revolving insurance facility; essentially insuring irrevocable letters of credit from Bank Rafidain or the Central Bank of Iraq. Eximbank/FCIA has not expanded its operations in Iraq since resumption of cover in 1987. We have periodically suspended issuing new FCIA insurance when Iraq fell behind in its payments. Overall, Iraq has always paid its delinquent accounts after falling behind for short periods of time. Iraq's repayment record to Eximbank/FCIA is therefore, not "among the Bank's poorest". Periodic short term delays in payment are not unusual for third world countries.

Eximbank's willingness to continue its relatively modest short term insurance facility (compared to European Export agencies) in Iraq was based on Iraq's continued willingness and ability to service its existing debt to the U.S. government and Eximbank/FCIA in a satisfactory manner.

On August 2, 1990, President Bush signed an Executive Order freezing Iraqi assets in the U.S. and Eximbank/FCIA immediately suspended all new insurance for exports to Iraq and Kuwait. We are

currently "off cover" in Iraq and our current exposure is approximately $85 million; all of which is short term.

Question: I understand that a recent application for assistance to an American exporter is for the sale of "lab chemicals."

Can you provide any additional information on this request and do these chemicals have any weapons application?

Answer: In March, 1990 the Government of Iraq requested for the Export-Import Bank to consider an application for assistance to a U.S. exporter for the potential sale of "Lab Chemicals". The Insurance Division was authorized to contact the potential exporter regarding this request, however, no request for assistance has ever been received by Eximbank from the exporter contacted or any other exporter relating to the sale of "Lab Chemicals" to Iraq.

OVERSEAS PRIVATE INVESTMENT CORPORATION

STATEMENT OF FRED M. ZEDER, PRESIDENT AND CEO

Mr. Chairman and Members of the Subcommittee:

As part of the Bush Administration's new management team at the Overseas Private Investment Corporation, it is an honor for me to submit testimony to this Subcommittee for the first time. My testimony will review with you OPIC's finance program and related activities.

These are truly exciting times at OPIC. As a government agency whose mission is to mobilize private U.S. investment for economic development, OPIC is poised to help promote American investment in countries that have recently undertaken significant political and economic reforms, as well as those more traditional beneficiaries of our programs. In the year that has passed since our last appearance before this Subcommittee, remarkable political and economic changes have taken place worldwide. Throughout Eastern Europe, nation after nation is rapidly moving away from closed totalitarian systems, towards open, democratic societies and free market economies. In Panama and, most recently, Nicaragua, momentous changes have created unprecedented need for U.S. private sector investment as those countries begin the process of rebuilding their economies along new free market lines. These and other events have opened up tremendous new demand for the services that OPIC provides.

To position itself to participate effectively in the face of the dramatic events currently unfolding, OPIC has developed several new initiatives to complement its ongoing programsThese new endeavors, which are described later in my testimony, are an integral part of OPIC's overall response to today's emerging development imperatives.

My testimony will serve two primary purposes. First, it should alert the Subcommittee to the new programs and initiatives being undertaken by OPIC to respond to the challenges of the quickly changing world. Second, I will review the status of our ongoing programs and describe OPIC's accomplishments during fiscal year 1989. For, as I have repeatedly emphasized, we do not wish our initiatives in Eastern Europe and Central America to overshadow or detract from our ongoing activities in other regions. As I said in my introduction to OPIC's 1989 annual report: "The increased recognition, acceptance and demand for OPIC's products and services have created within our ranks a rededication and commitment to the programs we have been providing for nearly 20 years in developing countries around the world."

STATUS REPORT ON AREAS OF SPECIAL INTEREST

Eastern Europe

It is hardly necessary to mention that one of the most profound developments of 1989 was the movement throughout Eastern Europe away from communism and centrally planned economies, toward more democratic forms of government and free market principles. In the midst of these extraordinary events, OPIC was thrust into a highly visible and challenging new role.

Following the Administration's announcement in April 1989 of a new policy towards Eastern Europe, including an important role for OPIC there, and concurrent with legislation authorizing OPIC to open its programs in Poland and Hungary, we began active preparations to begin operations there. Bilateral agreements with both countries were signed, and in early November 1989 OPIC sponsored its first investment mission to Poland.

With participants from 29 U.S. companies, the Poland mission was the largest and most quickly organized in OPIC's history. Investor interest in Eastern Europe remains consistently high. To further promote private investment opportunities, OPIC will return to Eastern Europe later this spring with back-to-back missions scheduled for Hungary (April 22-27) and Poland (April 29-May 4). Both missions are now filled to capacity reflecting the strong interest by American companies in Eastern Europe. The main thrust of the mission will be to introduce U.S. business to specific joint-venture opportunities and partners in the host nation. In addition to meetings with leaders in industry, commerce and government, the OPIC mission participants will be briefed on legal, accounting and banking practices and recent legislation affecting foreign investment and joint ventures in those two nations.

The economic development needs in Eastern Europe are extensive, ranging from agriculture to telecommunications and manufacturing. There is a particularly urgent need for environmental action, as East European nations strive to mitigate air, soil and water pollution. An underlying need, common to all sectors of these newly emerging market-based economies, is for the transfer of technological, operational and management skills to local enterprises as they are transformed from centralized to private entities.

In January 1990, OPIC approved its first project in Eastern Europe. OPIC issued an insurance contract covering General Electric Company's $150 million investment in Hungary to acquire a majority interest in Tungsram, an electric lighting products manufacturer. OPIC insurance was a key element in this venture to protect against uncertainties in the transition from a planned economy to a market economy. Based on preliminary project registrations, investor inquiries, and the

level of interest in the upcoming OPIC missions, OPIC expects to support numerous additional investments in Hungary and Poland in the coming months.

As you know, OPIC programs may soon be extended to other countries in Eastern Europe. Under the proposed Eastern European Democracy and Free Market Act of 1990, OPIC would be authorized, if conditions warrant, to begin operations in Czechoslovakia, the German Democratic Republic, Romania and Bulgaria. This important legislation builds on the steps previously taken to respond to the economic, political and social revolution currently underway in Eastern Europe.

As part of expanding its programs into Eastern Europe, OPIC has sought to promote continued progress with regard to internationally-recognized workers rights. In this connection, OPIC has consulted with U.S. labor organizations, including the AFL-CIO, regarding measures to ensure that OPIC's economic development activities promote respect for worker rights. OPIC has agreed with the AFL-CIO to incorporate in OPIC's insurance contracts in Poland and Hungary language to ensure that investors receiving OPIC political risk insurance coverage respect internationally recognized worker rights. This measure reinforces worker rights provisions already included in OPIC's statute.

We look forward to additional cooperation and consultation with U.S. labor organizations in monitoring labor conditions throughout Eastern Europe. OPIC's activities are aimed at promoting respect for the rights of the very men and women whose courage and determination set into motion the historic reform process which is transforming the world.

Panama

OPIC is playing an active and important role in the economic recovery initiative in Panama. To help rebuild the economy of that country following the restoration of democratic

government, OPIC reopened its finance and political risk insurance programs as soon as "The Urgent Assistance for Democracy in Panama Act of 1990", P.L. 101-243, was signed by President Bush on February 14, 1990. On February 23, 1990, OPIC took an investment mission to Panama. This was the first U.S. Government-sponsored effort to bring American investors to Panama to begin the process of rebuilding its economy. Although Panama has retained a relatively solid infrastructure of transportation, communications and electricity, key sectors such as agriculture, light industry and tourism urgently need new capital and expertise.

The highly successful OPIC mission included 27 U.S. private sector business executives. Mission participants were given an unprecedented opportunity to familiarize themselves with the economic and political climate of post-Noriega Panama, through direct talks with government and business leaders. By the end of the mission, participants had announced their intention to proceed with at least $70 million in investment projects in Panama, some of which may involve OPIC assistance, finance and/or insurance. These investments are expected to generate more then 500 permanent jobs during 1990-1991.

Ireland/Northern Ireland

Because of the tremendous need for economic revitalization in both the Republic of Ireland and Northern Ireland, OPIC programs are available there to identify, develop and support eligible projects which could benefit from U.S. investment. Underscoring our commitment to this area, I personally visited Northern Ireland in the summer of 1989.

In one particularly promising project, OPIC is currently working closely with the Industrial Development Board for

Northern Ireland in support of U.S. investment in and refurbishing of a manufacturer of jute and wool processing machinery in West Belfast. The project, which received host government approval in January 1990, will secure employment for more than 600 workers in this area, where the unemployment rate currently stands at 45%.

Africa

To focus on the particular needs of African economies, OPIC continues to develop new capital formation techniques targeting this region.

Just recently, on March 28, 1990, OPIC sponsored a forum with the African Business Round Table in Washington as part of the Round Table's mission to the United States. The Round Table delegation was led by its President, African Development Bank President Dr. Babacar Ndiaye. Working with the Round Table, OPIC hopes to encourage the development of business ventures between American and African investors.

Elsewhere, in coordination with the Agency for International Development ("AID"), OPIC is laying the groundwork for the establishment of privately owned or operated export processing zones in the sub-Saharan countries of Togo and Cameroon. Export processing zones are areas designated by host governments to provide tax incentives and other benefits to export manufacturers. After conducting preliminary research, OPIC concluded that supporting the establishment of privately operated zones of this kind in sub-Saharan Africa might be an effective way to encourage additional investment in manufacturing, both foreign and indigenous. Following a more detailed study of Togo and Cameroon, OPIC and AID concluded that excellent potential for such zones exists in both

countries, and pre-feasibility studies are currently underway. The OPIC finance program expects to be involved in supporting eligible U.S. businesses operating in the free zones. An OPIC investment mission to this part of Africa is scheduled for September.

With respect to a second OPIC initiative targeting Africa, and one that is already familiar to this Subcommittee, I ampleased to inform you that the Africa Growth Fund ("the Fund") was formally established in September 1989 as a privately owned and privately funded investment company that invests in new and expanding private sector enterprises throughout sub-Saharan Africa. The Fund is a limited partnership with total capital of $10 million in private equity and $20 million in OPIC-guaranteed long-term notes.

The Fund is managed by Equator Investment Services Limited, a subsidiary of Equator Bank. Under the direction of its owners' committee, the Fund is presently reviewing numerous investment proposals identified during recent months. Opportunities for investment exist in the manufacturing, agricultural, finance and service industry sectors. The Fund is working closely with other major international development agencies which are expected to refer projects to the Fund and provide co-investment support for Fund projects.

Incidentally, the Government of Zimbabwe has announced it will sign shortly the OPIC bilateral agreement which was negotiated last summer, thereby adding a new country in which OPIC and the Fund will be permitted to operate. This is the culmination of many years of effort and is indicative of Zimbabwe's more positive recent attitude toward foreign investment and private enterprise.

In North Africa, I led an investment mission to Morocco in November 1989. Recent changes in the investment laws of that country will facilitate foreign investment indevelopment projects, where urgent need exists in the areas of agribusiness, food processing, manufacturing and energy. We also negotiated a bilateral agreement with Algeria which is currently awaiting signature, and which will allow us to bring our programs to that country too.

Finally, OPIC's ongoing efforts to increase U.S. investor interest in sub-Saharan Africa yielded two notable financings in 1989. One, a $3.4 million loan guaranty, will help an Oregon firm carry out a long-term contract with the World Health Organization to spray aerially for "river blindness" disease in 11 West African nations. The second, a $1 million loan for a brick and tile manufacturing plant in Botswana, stemmed directly from OPIC's investment mission to the Southern Africa region in the spring of 1989.

China

Unforeseen international events have also affected OPIC programs in less positive ways than have the changes in Eastern Europe. In June 1989, OPIC stopped assisting new projects in China pending determination of human rights and other conditions in China following the tragic events of Tiananmen Square. The Foreign Relations Authorization Act for Fiscal Years 1990 and 1991 placed specific restrictions on OPIC programs in China, and we are, like all of you, watching developments in China very closely

Equity Program

The OPIC Equity Investment Program was authorized by Congress as a four-year pilot program in 1988 to help

facilitate private investment in two areas most in need of productive economic and social development projects, sub-Saharan Africa and the Caribbean Basin. The program was to be funded by a $10 million transfer from OPIC's income and revenues, later made subject to advance approval in appropriations acts.

The Administration's FY 1990 budget request included a $3 million allocation to the equity program, which was not included in the final appropriations act. In FY 1991, the Administration has requested authorization to expand eligibility of this program to provide much needed seed capital for private investment projects in certain Eastern European countries as the President may designate.

OPIC FINANCE PROGRAM

The core of OPIC's finance program is its Direct Investment Fund ("DIF"), which is reserved for projects sponsored by small and medium-sized companies, and the Investment Guaranty ("IG") program, which is used for large, capital-intensive undertakings. Under these programs, OPIC provides loans and loan guaranties for new business ventures and expansions of Third World countries. Since OPIC's inception in 1971, nearly $1.6 billion has been committed for direct loans and investment guaranties to finance projects in 58 developing countries.

Each year for the past five years, OPIC has committed its entire lending authority as established by Congress. During FY 1990 we again expect to commit the entire $19.9 million authorized for the direct loan program and $211.5 million of investment guaranty authority. The FY 1990 IG authority includes $39.3 million specifically authorized for projects in Poland, and we expect to commit that entire amount for that purpose. Chart 1 on the following page illustrates OPIC's utilization of its lending authority during the period FY 1985-FY 1990.

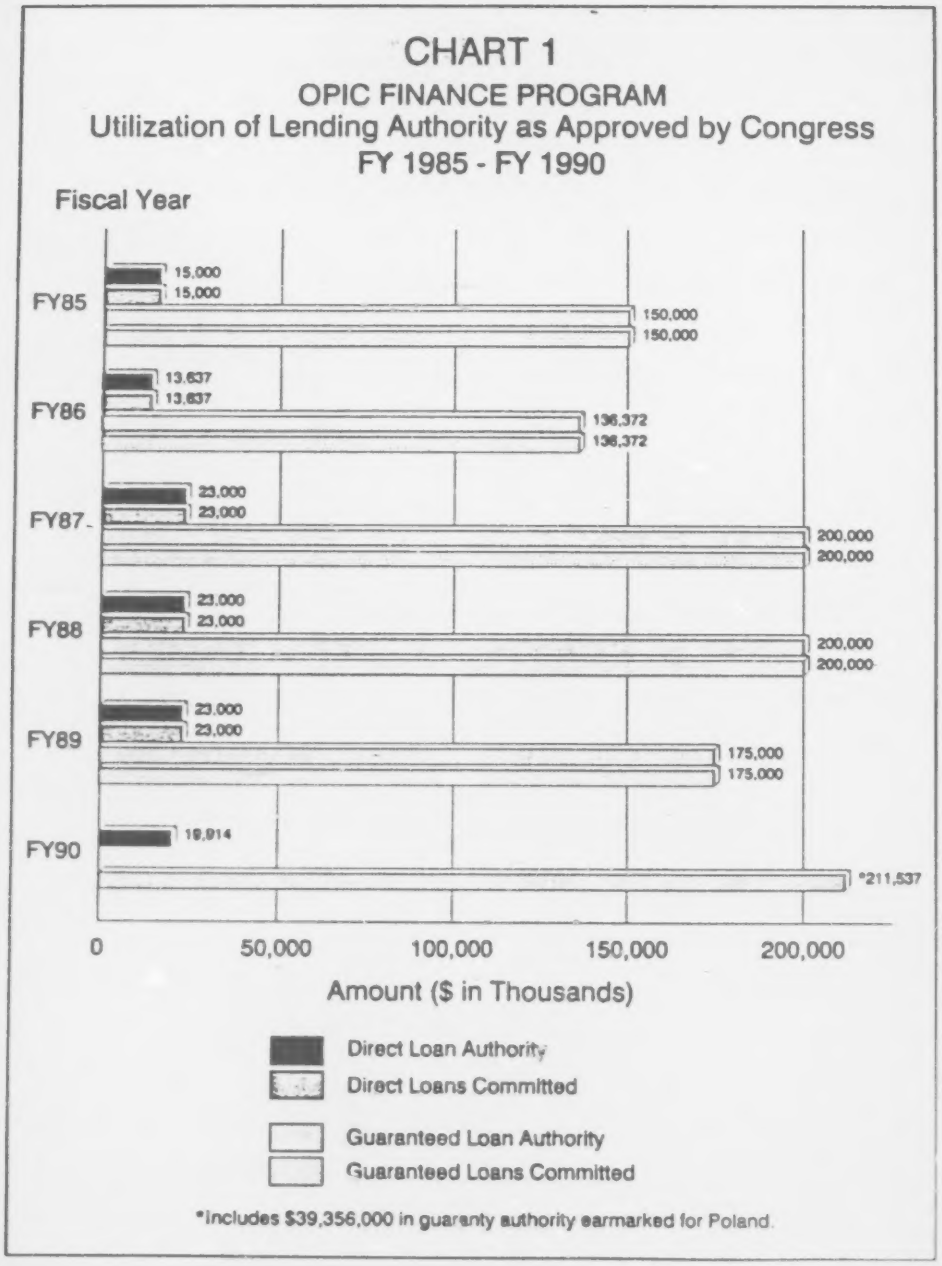


CHART 1
OPIC FINANCE PROGRAM
Utilization of Lending Authority as Approved by Congress
FY 1985 - FY 1990
Fiscal Year
FY85
15,000
15,000
150,000
150,000
FY86
13,637
13,637
136,372
136,372
FY87
23,000
23,000
200,000
200,000
FY88
23,000
23,000
200,000
200,000
FY89
23,000
23,000
175,000
175,000
FY90
19,914
*211,537
0
50,000
100,000
150,000
200,000
Amount ($ in Thousands)
Direct Loan Authority
Direct Loans Committed
Guaranteed Loan Authority
Guaranteed Loans Committed
*Includes $39,356,000 in guaranty authority earmarked for Poland.

Based on this successful track record, the Administration has requested FY 1991 funding levels of $23 million for OPIC's DIF program, and $185 million for its IG program. These levels, which are consistent with amounts we have fully utilized in previous years, are essential to maintain our ongoing finance programs, and to implement the numerous new initiatives which I will describe later on.

Review of FY 1989 Finance Program Accomplishments

Fiscal 1989 proved exceptionally productive for OPIC's finance program, which assisted 21 projects in 13 developing countries and areas. Over 70% of the year's projects were located in the world's poorest developing nations, as measured by per-capita GNP levels. Geographically, the year's projects were distributed as follows: 52% were located in the Caribbean Basin/Central American region; 19% were located in South America; 10% were located in Africa; 9% were located in Europe (Turkey); and 5% were evenly distributed between the Middle East and Asia.

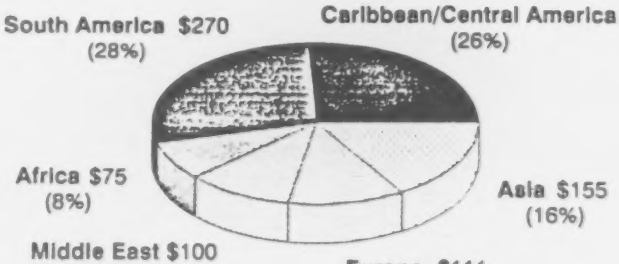
Historically, OPIC finance projects have had a broad geographic distribution throughout the developing world. Chart 2 on the following page illustrates the regional distribution of OPIC finance projects during the period FY 1985 through FY 1989.

Host Country Developmental Effects of FY 1989 Projects

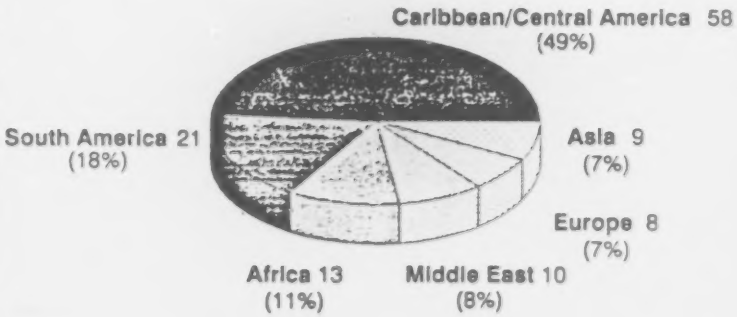
The 21 finance projects committed by OPIC in FY 1989 will generate significant economic and social benefits in their host countries. Notably, the net foreign exchange benefits to developing countries from the year's projects are projected to total $284 million per year. Other favorable impacts include

CHART 2

OPIC FINANCE PROGRAM
Geographic Distribution of Projects
FY 1985 - FY 1989



Millions of Dollars



Number of Projects

initial expenditures of more than $571 million for local procurement of goods and services, employment of more than 5,900 local workers by the fifth year of project operations, and generation of $65 million in annual host government revenues.

Such benefits to the host country are best illustrated by the following two examples of FY 1989 finance projects:

Project: Aerial spraying to control "river blindness"

Region: West Africa

As mentioned previously, a $3.4 million OPIC loan guaranty will help an Oregon firm carry out a long-term World Health Organization ("WHO") contract to provide aerial spraying services to control the spread of a disease known as onchocerciasis. Often referred to as "river blindness," the parasitic disease affects 20 to 30 million people worldwide. It is particularly common in West Africa, where it is transmitted to humans through several blackfly species which breed in rivers and streams.

The onchocerciasis control program is recognized as one of the most successful programs of its type in the world. Eradication of this disease will enable the population to re-inhabit and cultivate fertile river bottomlands.

WHO's satisfaction with the project sponsor's performance on a previous contract, which was also supported by OPIC, helped secure the present contract, which runs through December 31, 1992, and involves spraying operations in eleven countries: Benin, Burkina Faso, Cote d'Ivoire, Ghana, Guinea, Guinea Bissau, Mali, Niger, Senegal, Sierra Leone, and Togo.

Project: Reconstruction and expansion of poultry farms

Country: Jamaica

Through a direct loan of $3 million, OPIC is assisting in the reconstruction and expansion of several poultry farms destroyed by Hurricane Gilbert in 1988. The project stems from a special OPIC "rehabilitation" mission undertaken in November 1988 to expedite the recovery of Jamaica's private sector economy in the wake of the hurricane's destruction.

In addition to the reconstruction of the farms, the project involves the upgrade and expansion of a related broiler processing facility.

Employing over 1400 Jamaicans, the project company is the leading firm in the country's poultry business. This project will safeguard these jobs, and the expanded operations will provide an additional 83 new jobs.

Chart 3 on the following page illustrates the cumulative host country developmental benefits for all OPIC direct loan and investment guaranty projects committed during the five-year period from FY 1985 through FY 1989.

CHART 3

OPIC FINANCE PROGRAM
Estimated Developmental Impact of Projects
FY 1985 - FY 1989

Annual Foreign Exchange Effects For Host Country *	Amount/Number (millions of $, or number of workers)
Foreign Exchange Benefits	
Imports Replaced	$ 861
Exports Generated	2,099
Total	$ 2,960
Foreign Exchange Costs	
Project Imports	$ 679
Capital Outflows	1,319
Total	$ 1,998
Net Foreign Exchange Benefit (Benefits - Costs)	$ 962
Net Annual Taxes, Revenues and Duties Paid to the Host Country*	$ 613
Initial Local Expenditures	$ 1,603
Local Employment Generated**	
Technical and Management	4,326
Skilled and Unskilled Labor	24,617
Total	28,943

* Average annual amount over a five-year period.
** Number of workers in fifth year of operation.

U.S. Economic Effects of FY 1989 Projects

The 21 finance projects committed by OPIC in FY 1989 will also have a favorable impact on the U.S. economy. In addition to the $684 million of total U.S. investment in the projects, initial exports of U.S. machinery, equipment and supplies are valued at $412 million, while operational procurement from U.S. sources will generate an additional $765 million during the first five years of project operations.

The U.S. exports generated by these projects will result in the creation of an estimated 7,000 person-years of U.S. employment. The net direct U.S. trade effect of these 1989 projects will amount to a positive $620 million contribution toward the U.S. balance of trade and, when all financial flows are considered, a net positive $693 million contribution to the U.S. balance of payments.

Twelve projects, or 57% of the year's total, involved significant participation by U.S. small business and cooperatives, defined as industrial companies with annual sales of less than $142 million and non-industrial companies with stockholders' equity of less than $48 million.

The following two examples of finance projects committed during FY 1989 illustrate the U.S. effects of our loan and guaranty projects:

Project: Construction of international airport terminal

Country: Turkey

OPIC issued a commitment for a $40 million OPIC loan guaranty to help finance the construction of a new international terminal at Istanbul's Ataturk Airport, and the conversion of the existing facility into a new domestic terminal. In all, the expansion will more than double the airport's aircraft, passenger and cargo handling facilities.

The ownership structure of the project, which brings majority U.S. ownership to a venture traditionally handled by the public sector, was made possible by a new Turkish government policy encouraging privatization.

Goods and services valued at $60 million will be purchased from the U.S. These purchases include the jetways, baggage handling equipment, prefabrication of a large atrium, other specialized construction materials, and engineering and design services. Cash flows arising from the operating contract amount to an average $2.2 million per year in ongoing U.S. procurement. Over the first five years of operation, the project will generate positive U.S. balance of payments effects of $69 million.

Project: Expansion of a winter melon production facility

Country: Guatemala

On a much smaller scale than the project cited above, an OPIC loan of $1.5 million will support the expansion of a winter fruit and vegetable growing and packing operation in western Guatemala.

The project sponsor, a small, family-owned Florida business, has been actively involved in the production and import of winter fruits and vegetables for over fourteen years. The company is the largest independent U.S. importer of fresh fruits and vegetables from Central America and the Caribbean.

Highlighting the "pioneering" aspect of this project is the fact that the sponsor is introducing a new cash crop to the Guatemalan farmers as an alternative to illicit crops such as coca and marijuana. In addition, the company works hard to support and service its growing number of independent growers.

A "hands-on" manager, the U.S. sponsor maintains extremely high production and quality standards for the project. A qualified U.S. technical staff of experts in soil analysis, plant disease, and insect control provides strict production guidelines. All of the company's technical breakthroughs, from fertilizers and pesticides to irrigation and quality control techniques, are passed on to its growers.

The project helps to fill the seasonal gap in the supply of melons for the U.S. market. This shortage, which exists annually from November to April, occurs when U.S. suppliers cease production in late fall.

Last year, the project sponsor imported more than 1,000 containers of produce into the United States, supporting over 400 U.S. wholesalers and distributors. Indirectly, employment was maintained along the entire shipping, distribution and retail chain during a time when seasonal lay-offs are customary.

Chart 4 on the following page indicates the cumulative U.S. effects of all OPIC direct loan and investment guaranty projects during the five-year period from FY 1985 through FY 1989.

CHART 4

OPIC FINANCE PROGRAM
Estimated U.S. Economic Benefits of Projects
FY 1985 - FY 1989

Total Project Investment	$ 5.5 billion
U.S. Investment in Projects	$ 2.7 billion
U.S. Percent of Total	49 percent
Total Direct U.S. Project Exports	$ 3.4 billion
Initial Procurement From U.S.	$ 1.4 billion
Operational Procurement (5 Years)	$ 2.0 billion
Estimated U.S. Employment Generated	23,030 person-years

NEW INITIATIVES

In addition to its traditional direct loan and investment guaranty programs, OPIC is developing several new initiatives corresponding to current global economic and environmental priorities. Specific new programs are described below. Others, yet in the preliminary "drawing board" stage of development, will target Asia and Central America.

Eastern European Growth Fund

One investment vehicle being developed by OPIC in response to the rapidly changing events in Central Europe and Eastern Europe is the Eastern European Growth Fund, which is designed to raise private capital to fund new business enterprises. This fund will have a target capitalization of $200 million, of which OPIC's participation will be approximately 25%. It will generate vital new economic activity in Eastern Europe by encouraging private sector growth.

The Eastern European Growth Fund will mobilize additional capital to address the excess demand for OPIC-type finance services in Eastern Europe. Requests for OPIC's support in the area of privatization alone could reach several hundred million dollars in the next year or two, and can be targeted at projects and sectors which may not be served by other investment fund initiatives.

Small Business Loan Guaranty Program for Poland

A second OPIC initiative targeting Eastern Europe, the Small Business Loan Guaranty Program for Poland, will provide loans of up to $500,000 to investment projects sponsored by U.S. small business investors. Eligible projects will include new ventures or the expansion of existing businesses, and may either be wholly-owned by U.S. companies or joint ventures between U.S. and Polish firms.

This facility is being undertaken to meet the strong demand in the U.S. small business community for OPIC financial support to develop investment opportunities in Poland. Through this "multiplier" program, OPIC will seek to establish working relationships with commercial banks in key regions of the United States to facilitate U.S. small business investment in Poland.

Environmental Investment Fund

OPIC places a very high priority on protection of the environment. To facilitate private investment in projects that can develop natural resources on a sustainable basis, without industrial pollution, OPIC is developing an Environmental Investment Fund, with support from the Agency for International Development, potential investors, and other interested agencies, foundations and corporations. This will be a

privately owned and managed fund of up to $100 million (with 50% OPIC participation), which will identify, invest in, and support new or expanding business enterprises in developing countries which use natural resources on a sustainable basis and otherwise practice sound environmental management. OPIC proposes that this fund invest in equity securities of project companies whose businesses are in one of four broadly defined sectors: sustainable agriculture, forest management, ecotourism, and pollution prevention.

In preparation for launching the fund, OPIC has completed project profiles of the kinds of projects the fund might consider for investment, and prepared a concept paper on the fund's structure, capital base, management and investment strategy. We are currently developing procedures to identify potential financial advisors and placement agents for the fund as well as a qualified firm to manage the fund on a day-to-day basis.

The establishment of this fund is a high priority for OPIC. We currently expect to present this environmental fund for approval at OPIC's next Board of Directors meeting.

The Finance Program as a Government Credit Program

The management of OPIC's Finance programs fully meets the objectives of the Federal Managers' Financial Integrity Act (FMFIA) and related requirements and guidelines. In addition, during FY 1989 OPIC implemented several changes to further strengthen its financial management systems and internal controls.

With respect to the Finance program, specific steps taken include the establishment of an independent credit analysis

group within the Finance department to review prospective loans; the establishment of a separate credit review function in the Treasurer's office to review the loan portfolio following disbursement; the implementation of a pre-disbursement and post-disbursement loan rating system; and the development of more formal internal credit procedures.

In light of our rapidly growing business activities, OPIC recently re-evaluated its accounting policies with respect to its contingent liabilities and related reserves. Based on this review, OPIC elected to establish two new non-specific reserves. After careful analysis of the finance and insurance portfolios and OPIC's loss experience, in FY 1989 a $16 million reserve was created for investment guaranties, and a $34 million reserve was established for political risk insurance, in addition to our combined statutory reserves of $1.4 billion.

This new accounting policy is an important step in ensuring the continued sound growth of OPIC operations in the developing world. As our portfolio continues to grow as we implement new initiatives and as political and economic conditions evolve worldwide, OPIC will reassess these reserves annually, and increase them as necessary to maintain prudent levels.

It should also be noted that since its inception, the net actual losses under OPIC's investment guaranty program have represented only 3.7% of the total contingent liabilities created. Based on this strong historical performance, coupled with the recent and ongoing efforts to strengthen our financial management and controls as discussed above, OPIC believes that the investment guaranty program is not likely to result in any significant net actual losses (or outlays) in the future.

CONCLUSION

Commercial bank retrenchment from Third World investment, coupled with a heightened awareness of the importance of private sector investment as an alternative to public sector spending, underscore the importance of the OPIC finance program to strengthening U.S. economic opportunities in today's global market. OPIC will continue to develop innovative approaches to fulfilling our statutory mandate to mobilize the private sector in support of our national policy goals, and to use the finance authority made available to promote economically, politically and environmentally sound development worldwide.

Thank you, Mr. Chairman.

QUESTIONS SUBMITTED BY SENATOR BARBARA MIKULSKI

1. Question: Despite the OPIC-sponsored mission of last November, I know of no important joint venture (as for example General-Electric/Tungsram in Hungary) or significant U.S. investment in Poland as yet. Is there a particular reason why investment in Poland has been slow to develop?

Answer: While much of Eastern Europe is experiencing rapid political and economic change, there are significant differences in the business climate in specific countries. Poland has only recently demonstrated rapid change and has implemented some of the most drastic reforms since the Solidarity-based government came to power in 1989. Having initiated some reforms as early as the 1960's, Hungary is more advanced in its efforts to attract foreign investment.

We are of eager to see new U.S. investment in Poland, and preliminary results are encouraging in this regard. Since beginning operations in Poland in November 1989, hundreds of American business people have contacted the Overseas Private Investment Corporation (OPIC) as part of the process of exploring private business opportunities in Poland. We believe the foreign investment and privatization initiatives of the Polish Government, including that government's acceptance of many of Secretary Mosbacher's investment policy-proposals, are beginning to pay off in the form of increased U.S. investor interest.

Insurance Registrations Growing. For example, as of August 1990, OPIC has received political risk insurance registrations for 70 potential projects in Poland. By the end of this fiscal year, we expect to approve several projects in such important areas as food processing, insulated steel panels, dairy cattle, tourism, and computer software.

Other projects are moving forward, albeit slowly, due to the slow-pace of negotiations with prospective Polish partners, as well as difficulties in doing business in a country where changes

in the economy have sometimes outpaced most of its centrally-planned oriented procedures and business practices. Where possible, OPIC is assisting U.S. investors through the U.S. Department of Commerce to resolve processing problems, and we are encouraging investors not to give up their effort.

Approval of First OPIC Finance Project. Despite the problems in Poland, perseverance and hard work can pay off. In July 1990, OPIC gave formal approval to its first finance project in Poland. While not as large as the Tungsram project in Hungary, it is significant for its positive statement on investment opportunities in Poland.

OPIC will provide a $1.5 million direct loan to a $3 million project by a U.S. small business for a joint venture in Poland to manufacture insulated panels. Such panels are critically needed to provide thermal insulation used in refrigerated warehouses, food distribution, food processing and other industrial and commercial structures. (Presently, 30 percent of Poland's milk and meat products are wasted because of a lack of effective refrigeration facilities or poorly organized transport.) The project will create up to 40 new jobs in Poland, while at the same producing U.S. exports of $1.5 million from initial procurement, and an additional $100,000 annually on an ongoing basis.

Efforts to Improve Investment Climate. As part of OPIC's designation as a lead agency in the administration's policy of supporting economic development in Eastern Europe through private-sector initiatives, in November 1989, OPIC completed, as you noted, a week long investment mission to Poland. Twenty-eight U.S. corporations participated in this mission organized by OPIC. The purpose of the mission was to provide Americans with access to officials from the Polish government to help U.S. business to indentify specific business opportunities in Poland. Based on the success and strong interest in this first mission, a second OPIC mission to Poland took place April 29-May 4, 1990, with an additional 29 companies.

Besides facilitating specific investment projects, through our investment missions and our active Poland program, OPIC plays an additional role of supporting the political and economic reforms occurring in Poland. We do this in two ways: directly, through our contacts with representatives of the Polish government; and, indirectly, by providing both financial assistance to projects and a forum for the development of commercial relationships between U.S. businesses and their counterparts in Poland.

OPIC often contacts officials of the Polish government to explain both the philosophical and practical concerns of the American private sector, and to help the Poles devise ways in which to respond to those concerns. Such exchanges occur during the negotiation and implementation of our bilateral investment agreement, briefing sessions in which host governments discuss with us their priorities and commercial policy goals. In turn, OPIC explains the ways in which we can assist host governments and foster U.S. investment in their countries, often government-to-government meetings and mission-related programs convened for the specific purpose of discussing investment barriers and their elimination.

OPIC supports the private commercial sectors emerging in Poland by encouraging and advising U.S. investors exploring business opportunities with host country entrepreneurs. OPIC also helps American investors understand the laws and practices in Poland, thereby increasing their comfort level and equiping them to make sound investment decisions. We closely scrutinize the

business plans and financial projections of investors seeking insurance or financing to increase the likelihood that ventures will be well considered and, therefore, successful.

Finally OPIC plays a less direct, but perhaps more pervasive, role in shaping changes in the region by increasing the contacts between Polish businesspeople and their private counterparts in the U.S. Such contacts, whether in the form of questions by an investor learning about the host country business system or introductions to new suppliers, purchasers or competitors, inevitably increase understanding of free-market concepts.

The promulgation of a new privatization law by the Government of Poland on July 26, 1990, reflects the interest of Poland in changing its internal laws to attract outside investment and the importance of continuing the type of dialogue which is an invaluable by-product of OPIC's operations in Poland.

2. Question: Is OPIC working with Polish nongovernmental organizations, such as the Polish Chamber of Commerce or the Industrial Society?

Answer: OPIC offers political risk insurance, loans and loan guarantees only to qualified U.S. investors. As a result, OPIC works primarily with U.S.-based organizations to make U.S. companies aware of OPIC assistance for business opportunities in Poland. For example, OPIC has worked with the Director for Central and Eastern Europe of the U.S. Chamber of Commerce. We have also had frequent contacts with Polish-American groups. In September 1990, OPIC President and Chief Executive Officer Fred M. Zeder will address the Polish-American Congress annual meeting in Washington to brief them on OPIC's extensive programs involving Poland.

During our missions, OPIC officials and U.S. investors often meet with nongovernment organizations and groups which include representatives of host-country nongovernment organizations. This was the case in Poland where OPIC President and Chief Executive Officer Fred M. Zeder and OPIC General Counsel Howard L. Hills met with representatives of the Krakow Industrial Society in October 1989. Also, on October 16, 1989, Mr. Zeder had an extended meeting at Solidarity headquarters in Gdansk with Lech Walesa. Zeder and Walesa discussed how OPIC's programs would contribute to the economic reform process in Poland and the importance of encouraging the growth of the private sector in Poland.

3. Question: The U.S. community has undertaken plans to encourage Polish-Americans to make investments in Poland. For example, the Polish American Economic Forum has been established to encourage investment by Polish-Americans who lack enough capital to establish even a small business in America but have enough to run one in Poland. Could these potential investors benefit from any OPIC program?

Answer: Yes. In addition to its traditional programs of political risk insurance and finance, OPIC has added new programs to support U.S. private investment in Poland.

OPIC's newly created Eastern European Growth Fund was approved in July 1990 to provide equity financing for business ventures in Poland, and throughout Eastern Europe. The objective of the Fund will be to stimulate economic growth in the region by investing and supporting American and local investment in the emerging private sector.

The Fund will invest in equity and debt securities of both new and expanding enterprises in Eastern Europe, including newly privatized ventures. These investments will create new jobs, rehabilitate existing plants, improve product marketing, enhance managerial skills and provide sources of export earnings or import substitution for Eastern European economies. The Fund is expected to be active in a wide variety of sectors including telecommunications, tourism, agribusiness, consumer and medical goods, and industry infrastructure.

Another program offered by OPIC available to small business is the Opportunity Bank, a computer data bank which matches U.S. investor interest with overseas opportunities. American firms seeking joint venture projects overseas submit a request which OPIC will match with a similar listing of foreign businesses seeking U.S. investors.

Any U.S. small business interested in OPIC programs to support investment in Poland should feel free to call OPIC's toll-free program information line at 800-424-OPIC.

Additional details on the Eastern European Growth Fund are provided in the following Informational Summary.

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